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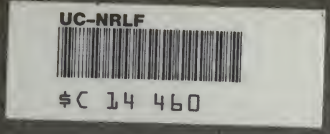

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FRIENDS IN THE ACCOUNTING
PROFESSION

MODERN

CORPORATION ACCOUNTING

(VOUCHER SYSTEM)

INCLUDING INSTRUCTION IN CORPORATE ORGANIZATION, METHODS OF TRANSACTING BUSINESS, AND BOOKKEEPING

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PREFACE

Unquestionably a textbook on corporation accounting should emphasize those accounting features which belong distinctively to corporations. The preparation of this work has been inspired largely by the belief of the authors that existing textbooks on this subject do not emphasize these distinctive features sufficiently to really teach the thing for which their title stands.

Corporation accounting does not necessarily differ from the accounting of a proprietary business in its methods of keeping those records which express the relation of the business to others and exhibit the trading operations of the business. The distinctive feature of corporation accounting is its method of keeping those records which set forth the relation of the corporation to its investors. The number of individuals interested in a corporation is as a rule larger than the number interested in a partnership. The relation of the stockholder to the corporation is widely different from that of a partner to his firm. The records which have to do with the investments of stockholders constitute a distinct and separate phase of corporation accounting for which no necessity exists in a proprietary business. The plan of distribution of corporate profits is also a distinctive feature of corporation accounting which requires special emphasis in a work on this subject.

The importance of placing emphasis on these distinctive features of corporation accounting is further emphasized by the fact that the conditions under which corporations may be organized and the plans for profit distribution are susceptible of many variations, thus giving rise to the necessity for instruction which will cover not one but many cases. "Modern Corporation Accounting" places the emphasis where it belongs. Further, it does not content itself with one opening entry and one plan of profit distribution, but fully illustrates opening and closing entries as under various conditions. This is done through separate exercises. Preceding the principal exercise, or "set," are seven exercises in opening corporation books. Following it are five closing exercises, illustrating five different methods of closing, and making use of data taken from five different lines of business. Incidentally the student is familiarized with the accounts used and the system of cost analysis used in six businesses instead of one.

The provisions of law governing the organization and internal administration of private corporations vary widely in the different states, so much so that up to this time no textbook on the subject of corporation accounting has been published which has been fully available for use in schools in different states. Existing textbooks on this subject, whatever may be said in regard to their adaptability for use in the state where written, inflict positive injury upon students when taught in other states—with the exception, of course, of textbooks which side-step the difficulty by not attempting to give instruction in matters of organization and administration.

"Modern Corporation Accounting" may be safely taught in any state. In order to present the matter of corporate organization clearly and definitely, the instruction in the process of organization has been made to conform to the laws of one state. Whenever this instruction is in conflict with the laws of other states, the student's attention

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is called to the fact and he is referred to tabulated information which sets forth the important points in which the incorporation laws of the different states vary. The transactions used in this work have been so prepared that they are not inconsistent with the laws of any state.

It is important that teachers understand the dangers surrounding the giving of instruction in corporation bookkeeping, and that they earnestly supplement the work of the authors at every point, impressing upon students the importance of a knowledge of the laws governing corporations, the danger of acting without legal advice in certain matters, and the necessity for care in following the laws of the state under which the corporation exists. A copy of the state statutes governing incorporation can probably be secured free of charge from the Secretary of State in any state. Every teacher of bookkeeping is advised to secure this

The voucher system is used. While the use of vouchers is by no means limited to corporations, yet this system is especially adapted to the uses of corporations and may be considered a typical feature of corporation accounting. The voucher system would not be readily adaptable to a business in which settlement was made on the monthly statement instead of on the invoice. Its advantages are particularly marked in a business wherein the preservation of a receipt for every disbursement is regarded as essential.

Special attention is given in this work to the subject of cost analysis. Cost analysis is not a feature peculiar to corporation accounting. Its presence here is justified by the fact that the principal business illustrated is a manufacturing business, and by the further fact that the student needs it. The subject is an extensive one and cannot be taught in schools in its entirety, but no student should consider as completed a training in accounting which has not included some instruction in the fundamental principles of the science of costs. His knowledge of this science will materially affect his right to be considered an "accountant" instead of a mere "bookkeeper."

The authors of "Modern Corporation Accounting" bring this work to the attention of commercial teachers for their use in advanced classes, not claiming to have produced a work above criticism, but confident in the belief that it will be found to be a strong and well-balanced text; that it will be found to teach thoroughly what its title indicates, placing the emphasis where it belongs; and that it may be safely and consistently taught in any school in any state.

J. A. Lyons & Co.

MODERN CORPORATION ACCOUNTING

VOUCHER SYSTEM

Introduction

The purpose of this work is to show students what a corporation is, and how it is created; to give them in concise form a correct idea of those accounts which belong peculiarly to corporation bookkeeping, and the original entries which affect those accounts; and to illustrate several processes of closing the ledger of a corporation and distributing corporation profits. While studying these things, observing students will learn much that will be of general benefit and that will serve to guide them in possible future dealings with corporations.

DESCRIPTION

Definition

A corporation is an organization formed under authority of the state and endowed with the power of succession and the privilege of transacting business as a single individual.

"An organization." The corporation is not an individual or group of individuals, but is a being having an identity separate from that of its members. One doing business with a corporation must rely not upon the standing or character of its members (stockholders), but upon his knowledge of the financial condition of the corporation, and upon such safeguards as the law has established in regard to the transaction of the business of corporations.

"Under authority of the state." This regulation of the organization and powers of corporations by state statute will be treated later more specifically.

"Power of succession." The death or withdrawal of one or all of its members has no effect whatever upon the life of a corporation. Such an occurrence would merely result in a transfer in the ownership of the stock affected. The active management not being vested in the shareholders, changes in the personnel of shareholders do not affect the conduct of the corporation's business.

"As a single individual." This relates to business and legal acts only. The corporation acts through its agents (officers and employes) acting under authority of the directors.

Classification

There are three kinds of corporations: (a) Public or Municipal Corporations; (b) Quasi-Public Corporations; (c) Private Corporations.

(a) *Public Corporations* are those which are created entirely for the benefit of the community at large, and in which every citizen is assumed to be interested. Their purpose is governmental. Cities, towns, villages, drainage districts, etc., are public corporations. Not being organized for profit, they issue no stock. They exercise jurisdiction over given territiories through ordinances of their own making.

(b) *Quasi-Public Corporations* (quasi = in a manner). These are organizations with more or less public functions, but not so fully endowed as are public corporations. They may sue and be sued as corporations, and they may hold property for certain purposes, but they do not pass ordinances, neither do they have a seal. Of this sort are school districts, counties, townships, boards of commissioners of highways, etc.

(c) *Private Corporations.* A corporation which is organized by private enterprise

for the financial profit of its members is a private corporation, even though the objects for which it exists may be more or less of a public nature. A railroad company or a gas company is a private corporation. It is a private corporation if it issues stock. It is private corporations which are to be especially treated of in this section.

A private corporation, the business of which is of the nature of a public utility, and which operates under a franchise granted by the public, may be controlled by the public in those matters affecting the public's interests. This has reference to such enterprises as railway, telegraph, telephone, gas, or water companies. Such corporations are sometimes classed as quasi-public.

A franchise is the right granted to a company by local, state, or national authority to use the public streets or highways for the purposes of conducting its business.

Advantages

The advantages of conducting a business under corporate management instead of individual or copartnership management may be enumerated as follows:

1. Stockholders are not liable individually for the debts of the business, if their stock is paid up.*
2. The corporation is not dissolved by the death, or other disability, of one or all of the stockholders.
3. New capital may be secured by the selling (with the sanction of the state) of new stock (usually preferred stock), thus avoiding the admission of special partners.
4. The interest of one stockholder may be transferred either in whole or in part to some one else without in any way affecting the organization.
5. Money can be borrowed more easily by a corporation than by a proprietary business of equal standing. This is accomplished by the sale of bonds. The advantages of borrowing under the bond issue plan will be explained later.
6. Exclusive right to the use of a certain name in a given state can be secured.

THE PROCESS OF INCORPORATION—(ILLINOIS)†

Creation

A corporation may be created only under the authority and by the power of the state. Formerly, each corporation was created by a special enactment of the legislature. This, it was soon discovered, was a prolific source of legislative corruption and favoritism, and general statutes were provided in many states under the provisions of which corporations could be formed by any persons who would comply with them in every detail. As corporations increased in popularity, more and more of the states enacted these general provisions, until now any other manner of incorporation is forbidden by constitutional provision in all but seven states.

The provisions of these general statutes in the different states vary widely. When, therefore, it is sought to organize a corporation in a given state a copy of the corporation statutes of that state should be procured and its provisions followed closely.

The Illinois state laws relating to the incorporation of companies distinguish between private corporations created for purposes of profit and private corporations not created for purposes of profit, and make special provisions for each class. Special provisions are also made for cemetery associations, cooperative associations, educational institutions, elevated railroads, foreign corporations, free public libraries, gas companies, Grand Army of the Republic, title guaranty companies, juvenile reformatories, pawners' societies, railroads and street railroads; and for the punishment of persons forming combinations in restraint of trade.

*Varies in different states. See page 76. *Look up this and similar references at the time your attention is first called to them*, as your attention will be called to them but once.

†In order to present, in a concrete form, some one definite process of incorporation, we have given on page 7 the exact steps in this process for corporations formed in Illinois. For an outline of the necessary steps in various states, see page 73.

Persons desiring to form a corporation in Illinois must file with the secretary of state an affidavit that they are not connected with any trust or combine the purpose of which is to restrain competition or trade, to limit production or to fix prices. Corporations are required to make affidavit to this effect annually.

Application

Whenever any number of persons (not less than three or more than seven)* wish to form a corporation, they must file with the Secretary of State a statement duly acknowledged before a notary public or other officer qualified to take acknowledgments, which statement shall set forth the proposed name, location, object, amount of capital stock and number of shares, the duration of the corporation and such other facts as may be required by the laws of the state.

The License to Solicit Subscription

If the application is approved, the Secretary of State will issue to the applicants a license as commissioners to solicit subscriptions.

Meeting of Subscribers

After the capital stock shall have been fully* subscribed the commissioners must convene a meeting of the stockholders for the purpose of electing directors. The directors then appoint the officers of the corporation.

The Certificate of Incorporation

The law of the state requires at least one-half* of the subscription to be paid in. It may be paid in in cash, in property or in nominal assets such as good will, franchise, etc.* When the amount called for has been paid in to the commissioners, they must make to the Secretary of State a full report of all proceedings, accompanied by proofs that the provisions of the state statutes have been complied with in every respect.

This report must state what amount of the capital stock has been paid in in property other than cash; the board of commissioners appraises the value of such property. It will be seen from this that the state exercises no discretion in the matter of the values of such property items, this being left to the commissioners. Subscribers paying in cash in order to protect themselves, should, therefore, make it a point to find out how the other subscriptions are being paid. Subsequent purchasers should observe the same precaution. Stockholders have a legal right to these facts, and persons intending to become stockholders should insist upon ascertaining the facts before investing.

These "proofs" consist of affidavits made in due form before a notary public and attested by him.

The various "provisions" above referred to relate to such matters as the adoption of rules for the regulation of the corporation; presenting a list of the names of incorporators, directors and officers; a plan for the signing and acknowledgment of the application; advertisement of the application; proportion of capital stock which shall be subscribed for (100%); rules governing the amount of indebtedness which the corporation is authorized to incur; method of filing the completed certificate, etc. There are so many of these special regulations that complete enumeration of them cannot be attempted in a work of this kind. It is sufficient to call attention to their existence and to advise that no one should attempt to form a corporation without a very careful study of the corporation law of the state.

When the corporation has complied with the provisions of the statutes in every respect, the Secretary of State will forward a Certificate of Incorporation.* This is a formal document under the Seal of the State, granting the corporation the power to conduct business as specified in its application, subject, of course, to the general incorporation law of the state. Before the corporation may commence business, this certificate must

*Varies in different states. See page 76.

Certificate of Incorporation

STATE OF ILLINOIS,

DEPARTMENT OF STATE

James A. Rose — Secretary of State

To all to whom these Presents Shall Come, Greeting:

Whereas, a STATEMENT, duly signed and acknowledged, has been filed in the Office of the Secretary of State, on the _____ day of _____ A.D. 19__, for the organization of the _____ under and in accordance with the provisions of "AN ACT CONCERNING CORPORATIONS" approved April 18, 1872, and in force July 1, 1872, and all acts amendatory thereof, a copy of which statement is hereto attached;

And Whereas, a LICENSE having been issued to _____ as Commissioners to open books for subscription to the capital stock of the said Company,

And Whereas, the said Commissioners have on the _____ day of _____ A.D. 19__, filed in the office of the Secretary of State a report of their proceedings under said License, a copy of which report is hereto attached:

Now Therefore, I, JAMES A. ROSE, Secretary of State of the State of Illinois, by virtue of the powers vested in me by law, do hereby certify that the said _____ is a legally organized Corporation under the laws of this State.

In Testimony Whereof, I hereto set my hand and cause to be affixed the great Seal of State.

Done at the City of Springfield this _____ day of _____ A.D. 19__ and of the Independence of the United States the one hundred and _____

_____

SECRETARY OF STATE

be filed with the Recorder of Deeds of the county in which the principal business of the company is to be conducted.

The certificate of incorporation is variously designated in the different states as "Articles of Incorporation," "Certificate of Organization," and "Certificate of Incorporation." In many states, formal certificates are not issued.

When corporations are formed under special statutory enactment, the formal document granted by the state is called a Charter.

The term "charter" has two meanings, one special, the other general. When a corporation is formed by a special statutory enactment of the legislature the formal document prescribing the rights and powers of such corporation is termed a "charter." When a corporation is formed under the general corporation law of the state, the term "charter" means the *contract relation* between the state and the corporation. In this case it is not a formal document. The certificate of incorporation is often called "the charter," although, strictly speaking, it merely evidences the existence of a charter, or charter relations.

Before any general incorporation laws were enacted formal charters were issued to all corporations, and existing corporations which were formed in those days still hold their powers under the charters then granted them.

CERTIFICATE OF STOCK AND STUB

The Acme Manufacturing Co.
Stock Certificate
No. 2
For 200 Shares.
Issued to
H. M. Miller.
Champaign, Ill.
Dated May 27 19—
Posted to Stock Ledger Fol. 10
Transfer Record
From Original Sub.
Date —— 19——
Orig. Cert. No.——
No. Orig. Shares——
Posted to Stock Ledger Fol.——
Received this Certificate.
*Signature of H M Miller.
Capital Stock $100,000.00
1,000 Shares of $100.00 each
The Acme Manufacturing Company
Stock Certificate No. 2
This Certifies that H. M. Miller
is entitled to 200 shares of One Hundred Dollars each, in the capital stock of the Acme Manufacturing Company, fully paid and non-assessable, transferable only on the books of the Corporation by the holder hereof in person or by attorney upon surrender of this certificate properly endorsed.
In Witness whereof, the said corporation has caused this certificate to be signed by its duly authorized officers, and to be sealed with the Seal of the Corporation, at Chicago, Ills. this 27th day of May A. D. 19—
SEAL
C. J. Barber Secretary and Treasurer.
J. E. Colby President.

CAPITAL STOCK

Definition

Capital stock is the amount paid in or to be paid in for carrying on the business, and for the benefit of the corporation creditors.

"Capital Stock" does not mean the same as "Capital." The capital stock is fixed and invariable. The capital is the amount of net assets at any time, and may be greater or less than the capital stock.

Division

Capital stock is divided into shares, usually of a face value of $100.00. In Illinois the shares may vary from $10 to $100.00.* A share is the *right* which its owner has in the management, profits and ultimate assets of the concern. It is itself an intangible interest

*Varies in different states. See page 76.

resembling a partnership interest, while the physical evidence of its existence is the stock certificate. Stock certificates are personalty, not realty; yet strictly speaking they are not personal property, but are of the nature of choses in action.

Kinds of Stock

(a) *Common Stock* is the ordinary stock of the company. If a company issues but one kind of stock, it is Common Stock.

*(b) *Preferred Stock* is stock that has a preference as to dividends or as to assets or both. "Preferred as to dividends" means that if there are not enough dividends to satisfy the holders of both the preferred and common stock, the holders of the preferred stock must be satisfied first; what is left of the dividends will be given to the holders of common stock; this is what is usually meant by "Preferred Stock." "Preferred as to assets," means that in case the corporation fails, or for any other reason is dissolved, and it becomes necessary to divide the assets, the holders of preferred stock will be satisfied before any of the assets are given for the satisfaction of the holders of common stock.

There are two good reasons which justify the issue of preferred stock. *First:* Common stockholders wishing to avoid a special assessment to cover a loss or deficit, are willing to issue preferred stock. The effect of the issue is that the common stockholders sacrifice their future profits to the preferred stockholders by unanimous vote, choosing this step rather than an immediate cash loss through assessment. *Second:* The holder of common stock and the holder of preferred stock both understand perfectly well what they are buying, and the distinction between preferred or common stock is borne in mind when the price of either is determined upon. Investors would not buy the preferred stock, except on the understanding that their dividends would be assured them whether the common stockholders received anything or not.

Participating Preferred Stock is that which is not only preferred as to the rate of dividend to which its holders are entitled, but also participates, or shares, in any profits remaining after the common stockholders have received a specified rate of dividend.

Non-participating Preferred Stock is that which is not in any case entitled to any greater rate than the rate for which it is preferred. In a very prosperous business common stock will sometimes receive a higher dividend than non-participating preferred stock, because the non-participating preferred stock is entitled to dividends up to only a certain per cent, and the common stock is entitled to all the rest, which may, in such a business, be more than that which was apportioned to the non-participating preferred stock.

Cumulative Preferred Stock is preferred stock which is sold under an agreement that any dividends which the corporation is unable to pay its holders up to the per cent for which it is preferred will be made up if possible from future distributions of dividends; and that holders of common stock are not entitled to any dividends until all arrears on the cumulative preferred stock are fully paid.

There may be several grades of preferred stock as follows: First preferred; Second preferred; etc.

Guaranteed Dividends are sometimes offered on stock in one corporation which is owned and backed by a larger corporation amply able to make the guaranty.

Treasury Stock is that stock which is held by the company for future sales. *In states requiring that all of the capital stock be subscribed for before the existence of the corporation begins, treasury stock can exist only when the corporation has bought back or otherwise acquired some of its own stock. (One method of raising funds is for stockholders to donate a part of their stock, by the sale of which additional money is secured.)

*See page 76.

Dividends on treasury stock are usually returned to the loss and gain account of the corporation. Treasury stock cannot be voted, since it represents the interests of no individual stockholder.

Watered Stock is that which is issued within the charter limitations, but which is not supported by the actual value of the assets of the corporation.

Spurious or Overissued Stock is such as is issued in excess of the amount named in the charter. It is absolutely void.

Stock Values

The amount named in the stock certificate is known as the *nominal, par* or *face* value. It is fixed and unchangeable. The *market value* is what the stock sells for in the market. This is determined largely by its earning power or dividends. The *real, intrinsic* or *liquidation* value is what the stock would be worth on final dissolution when all assets are converted into cash and all debts paid. The *book value* of stock is its value as ascertained from the records of assets and liabilities as shown by the books. Often this is greater than the intrinsic value, as it is not always possible to sell assets at the prices at which they are entered in the books.

The intrinsic value of one share is found by dividing the total intrinsic value of the corporation's stock by the number of shares. The book value of one share is found by dividing the total book value of all the shares by the number of shares.

Many factors enter into the determination of the selling price of stock. Primarily, of course, the intrinsic value must be considered. Next in importance comes earning power, or dividends. In addition to these there are many conditions that affect its stability, such as the reputation of its officials for honesty, public confidence in the conservatism and wisdom of its management, and the future prospects of the corporation's success. Finally, there must be considered the influences that affect the fluctuations of the market from day to day. Heavy buying on the part of influential houses will cause prices to rise. Heavy selling by those supposed to "know" will cause prices to go down. (Fictitious buying and selling are sometimes resorted to by stock market manipulators.) Rumors that some captain of industry is interested in a certain stock will inflate its price. The death of one prominent in the financial world will temporarily depress prices. Rumors of consolidation will often improve stocks. Rumors of war, or financial panic, will hurt them. And so on.

Stock Transfers

Stock may be transferred from one owner to another by sale. The certificates of the stock sold must be endorsed by the seller over to the buyer. The voting power of the stock is transferred with the ownership. It is not necessary that the consent of other stockholders be secured, and the transfer does not in any way affect the conduct of the corporation's business.

It is often customary for companies to take up old certificates and issue new ones in their place, when stock is transferred. When this is done, a proper record of the transfer of ownership should be made on the books of the corporation.

A subscriber for stock who has not yet fully paid for it may transfer his ownership of the stock by selling it. But he cannot transfer his obligation to pay for the balance for which he has subscribed. The state granted the charter on condition that he would pay the amount for which he subscribed and creditors have extended credit to the corporation upon the assumption that he would do so. He will be held for the full payment of his subscription.

Dividends

A private corporation, like any other private business, exists for the purpose of earning profits for the investors. A part of the profits is periodically distributed to the stockholders. The amounts so distributed are called dividends. Dividends of a certain rate per cent on the capital stock are declared by vote of the directors. They are appropriated from the earnings of the company. Should the directors declare a dividend in excess of the earnings the excess would have to be paid out of the capital of the company and the directors would be held personally responsible by law to the corporate creditors for the amount of the excess. It is not lawful to impair the amount of the capital of a corporation for the payment of dividends.

Should a corporation be unable to pay as large a dividend as might be wished, the directors might be tempted to declare a large dividend anyway, paying it out of the capital. This is against the law. Such a course would deceive investors and would cause a diminution of capital which would be unfair to creditors, for whose protection the law has declared that the capital shall not be used except for purposes of carrying on the business.

Assessments

When the books of a corporation show a deficit because of continued losses, it is sometimes decided by unanimous vote of the stockholders that the deficit shall be met by the assessment of the stockholders rather than that the assets of the corporation be allowed to diminish.

Management

The management of a corporation is vested in a board of directors.* These directors are elected by vote of the stockholders. The stockholders, as individuals, have no power whatever in the management of the corporation or in the transaction of its business. The directors, as might be inferred from their title, direct the affairs of the corporation, but they do not transact the business of the corporation. The actual business is transacted by officers appointed by the directors (President, Vice-President, Secretary, Treasurer, etc.), and by persons they may employ.

The fact that you are a holder of stock of the Chicago & Alton R. R. does not authorize you to transact any business for that railroad. You have voting power in proportion to the amount of stock you own, and can vote for the directors and on certain questions of policy, but that is as far as your powers extend.

The fact that you are a director of the Chicago & Alton R. R. does not imply that you have any authority to sell tickets to passengers. Your authority as director is limited to the right to vote on questions of management and policy.

The authorized agents and employes of the corporation transact its business. They may be removed at the instance of the directors, but the directors are not authorized to transact the business which the employes are employed to perform. Again, the stockholders may by vote remove the directors, but the stockholders are not authorized to perform the work of the directors.

Voting

Shareholders vote upon who shall be the directors of the corporation; whether new stock or bonds shall be issued and sold; and on matters relating to the existence of the corporation, to the widening of its scope of operations, to the increase of its assets, or to its dissolution. A shareholder may cast as many votes as the number of shares which he holds. When a person or group of persons own more than one-half of the voting power

*For No. of directors see page 77.

of the corporation, they are said to own a "controlling interest" in the corporation, since they can, by their votes, control its acts and policies.

Cumulative Voting is the plan of voting which enables the holder of stock to protect his own interests by casting all of his votes for one director. It enables the minority stockholders to elect one director who will safeguard their interests. Illustration: A is the holder of 40 shares of stock in a corporation which is voting upon the election of three directors. B and C, the other members of the corporation, together own 60 shares. Under the ordinary plan of voting, B and C could elect the entire directorate. Under the cumulative plan of voting, A may cast his 40 votes three times for one director, instead of once for each of three directors. This gives him a total voting power of 120 votes with which he can elect one director. B and C, who own 60 shares, have a total voting power of 180 votes with which they can elect two of the directors. If A had been compelled to cast his votes separately for three directors, casting only 40 votes for each director, B and C would thereupon have cast 60 votes for each director; and thus B and C would have elected the entire directorate.

The directors vote as individuals, each director being entitled to one vote. The President and other officers, as such, have no voting power. It frequently happens, however, that the officers are also directors; they then have the right to vote as directors.

Powers of Stockholders

Individually, stockholders are entitled to vote at their meetings, to share in the corporation profits, and to share in the corporate assets in case of dissolution. They may examine the books of the company at any reasonable time. They may pledge their stock as security for their personal debts, and still retain the right to vote the stock, and to share in its dividends.

In Illinois, stockholders have the right to vote by the cumulative plan.* They may cast their votes by proxy if they wish.*

Collectively, the stockholders elect the directorate and vote upon matters of corporate policy as enumerated in the paragraph on *Voting.*

In Illinois, a majority of the stockholders may remove directors for cause, or may change the number of directors. Two-thirds of the stockholders may call a meeting at any time. They may dissolve the corporation.

Liability of Stockholders

As has been previously stated, stockholders in a corporation are not liable personally for the debts of the corporation. Should the corporation fail, they may lose the amount they have invested, but in most states they are not liable further. Some states, however, have enacted provisions making members of a corporation liable to creditors to an amount in addition to their investment, which amount varies in the different states.* Under the National Banking Act, a stockholder in a National Bank is held liable to creditors to an additional amount equal to the par value of his capital stock.

A stockholder is always liable to creditors for the amount of his unpaid subscription. Agreements among stockholders that the entire amount of subscriptions need not be paid in, are binding among themselves, but are of no effect as against creditors when the working capital of the corporation is exhausted and creditors demand payment. Stock not fully paid up may be transferred to another, but the obligation of the original subscriber to pay his balance is not canceled thereby Even the dissolution of the corporation will not relieve the subscriber from liability to creditors on his unpaid subscription.

*See page 76.

Duties of Directors

They appoint the officers and agents of the company and have authority in matters relating to the management. In many states they make the by-laws; i. e., rules for internal government of the company. Important contracts, such as the borrowing of money, should be authorized by the directors. The directors act as a body; a director has no individual authority.

In Illinois the directors may levy assessments for installments on stock. They may hold meetings outside of the state provided the action of such meeting be ratified by a later meeting held within the state.

Powers of the Corporation

Corporate powers are of two kinds: (1) Powers incidental to corporate existence, arising from the very nature of a corporation. (2) Charter powers.

(1) *Incidental powers* may be briefly outlined thus:

The endowed power of succession.
The right to maintain and defend suits at law.
The right to hold property, except that a corporation may not hold real estate not necessary to its existence and the transaction of its business.*
The right to the exclusive use of a certain name in a given state.
The right to have a common seal.
The right to make by-laws, i. e., rules for internal management.
The right to remove officers and even members, for just cause.

(2) *Charter powers.*

Since the charter includes the powers applied for and the whole law of the state, charter powers are: (a) Those powers which are specifically enumerated in the Company's application. (b) Those specifically granted by the statute.

A person may, as a general rule, do anything not specifically forbidden by law. A corporation may do only what is granted by law. Powers need not, however, be expressly granted; they may be implied. Illustration: The power to issue negotiable paper or bonds, and the power to pledge corporation property, are implied when the statute expressly grants the power to borrow money, because money cannot be borrowed unless one of these things be done.

The power to transact the business specified in the application for the charter usually carries with it the following implied corporate powers:

To borrow money.
To issue commercial paper or bonds.
To become surety or guarantor in the usual course of business, but not to issue accommodation paper, or to assume other obligations not arising from the transaction of its business.
To loan money.
To acquire and enforce a lien upon its own stock*or stock of other corporations when such stock is held by a debtor, but not (generally) to take stock in other corporations as an investment.* To hold its own stock as treasury stock (except when this privilege is expressly denied by statute).

Following is a list of important powers often granted by state statute:

To accept property, services or intangible assets in lieu of cash in payment for stock.*
To collect from subscribers in installments.
To declare stock forfeited for non-payment of installments and to sell such stock in satisfaction of the company's claim.*

*See page 76.

To classify directors as to time of expiration of office.*
To consolidate with other corporations, if not competitive.*
To extend its corporate existence.
To change its corporate name.
To increase or decrease its capital stock.
To dissolve without recourse to the courts.
To retain a part of its original capital stock as treasury stock.
To purchase its own capital stock.*
To purchase stock in other corporations and hold the same as an investment.
To issue preferred stock.

In studying the foregoing enumerated powers, two things must be borne clearly in mind:

(1) That the exercise of any of the powers above enumerated may be prohibited or restricted by statute in any State, and that generally (in the case of statutory powers) the failure of the statute to specifically grant the power constitutes a prohibition.

(2) That a corporation may not transact any business except that for which permission is given in its charter.

CORPORATION ACCOUNTING

Corporate Records

(a)	Stock Records	1 Subscription Book. 2 Stock Certificate Book stub. 3 Stock Ledger. 4 Installment Receipt Book stub. 5 Installment Ledger
(b)	Official Record	Minute Book.
(c)	Operation or Business Records	Including books of original and subsequent entry necessary for recording the transactions of the business.
(d)	Profit Distribution Records.	

The members of the corporation sustain a different relation to the corporation itself than do partners to their business. The distinctive feature of corporation accounting is its manner of keeping the records to express this relation. The ordinary business of a corporation is recorded in the same way that the business of any partnership or proprietorship is recorded.

Corporation accounting differs from other accounting in the records for organization, and the plan for the distribution of profits. If a partnership or proprietorship be changed to a corporation it is not necessary to make any change in the books of accounts so far as they express the relation of the business to its debtors and creditors, but it is only necessary to make such changes as are necessary to show the interests of those who are associated together in the business, and the plan for distributing the profits.

(a) *Stock Records:*

The stock records of a corporation are those in which account is kept of the stockholders' interests, and the transfers thereof as they may occur. These consist of:

1. Subscription Book or List, in which are shown the names of subscribers and the amounts of their subscriptions.

2. Stock Certificate Book Stub. As the certificates of stock are issued, records are made on the stubs from which the certificates are detached. These records are posted to the Stock Ledger.

*See page 76.

3. Stock Ledger, showing each member's holdings of fully paid stock, for which certificates have been issued.

4. Installment Receipt Book stub. As receipts are issued for part payments on stock, records are made on the stubs. These are posted to the Installment Ledger.

5. Installment Ledger, containing each member's account with the corporation for stock subscribed for by him.

(b) *Official Records:*

The official records are kept in the Minute Book. This book should contain an orderly record of the business transacted at all meetings of directors as well as at all meetings of stockholders. To keep the Minute Book properly is a work of great importance, and what is written in this book should be written by one who is familiar with the laws governing corporations. Minutes of important meetings should be approved by an attorney.

(c) *Operating or Business Records:*

As has been previously stated, these records would not necessarily differ in the books of a corporation from records of the same kind in any other business. No attention will be devoted to them at this point.

OPENING ENTRIES

The Capital Stock account in the General Ledger of a corporation corresponds to the investment account of a proprietary business, since it represents the total of the interests of all investors. (Bondholders are investors, in a sense, yet the relation of the bondholders to the corporation is not, strictly speaking, that of investors, but of creditors.) In opening a set of corporation books it is therefore necessary to credit the capital stock account for the total amount of stock authorized. The capital stock account is a controlling account, the amount shown therein being at all times equal to the aggregate of the stock issued to the various stockholders, plus that reserved as treasury stock in the hands of the Treasurer as trustee.

We will consider the opening entries for five different conditions:

CONDITION 1. Capital stock all paid in in cash, $100,000. This is the simplest transaction possible.

	Cash,	$100,000	
	Capital Stock,		$100,000.

In the stock ledger open an account with each stockholder and credit him for the par value of his stock.

CONDITION 2. Capital stock, $100,000, all subscribed for but only $50,000 paid in in cash, the balance to be paid on call of the directors. In this case the installment ledger is generally used.

(a)	Subscription,	$100,000.	
	Capital Stock,		$100,000.

Explanatory: Use the facts of the subscription list as an explanation, showing subscribers' names and amounts subscribed for.

(b) Debit each subscriber in the Installment Ledger for amount of his subscription. By this method the Subscription Account opened in the General Ledger is in the nature of a Controlling Account, as the aggregate of the Installment Ledger should always agree with it.

(c) As each subscriber pays, Cash is debited and Subscription credited in the General Ledger. The subscribers will be credited individually in the Installment Ledger.

Should the subscriptions not be sufficiently numerous to warrant a separate Installment Ledger, the subscription account in the general ledger should be kept in this way: On the debit side enter the names of the subscribers, allotting each one as many lines as the number of installments he is expected to pay. As the installments are paid in, debit Cash and credit Subscription, entering the individual credits in the subscription account opposite the name of the subscriber making the payment. In this way, the subscription account will exhibit a general result, and in addition it will be possible to determine from it the condition of the account of each subscriber.

CONDITION 3. Capital stock not fully subscribed for and the subscription not fully paid in in cash. Illustration: In this case let us assume the capital stock to be $100,000. $80,000 is subscribed for. $20,000 is held as treasury stock for future subscription. Of the part subscribed for, $40,000 is paid in in cash and balance subject to call.

Two entries are necessary:

(1)	Subscription,	$80,000	
	Treasury Stock,	$20,000	
	Capital Stock,		$100,000.
(2)	Cash,	$40,000	
	Subscription,		$40,000.

In states where the law requires that all stock be subscribed for before a charter will be issued, there would be no occasion for making these entries.

CONDITION 4. Changing from a partnership to a corporation. When the capital stock of the organization is to be the same as the total of the interests of the proprietors, it is only necessary to open a capital stock account and close the proprietors' accounts into it. This will leave the books in balance. The proprietors' interests should then be separately shown in a stock ledger.

However, it is not at all uncommon in changing from a partnership to a corporation to organize for more than the total of the partnership interests. In such cases the balance of the books would have to be maintained by the creation of special accounts such as *good will, copyright, patent right, etc.*, which would be debited for enough to make up the difference and keep the books in balance.

It must not be inferred that corporations should arbitrarily create accounts with these intangible assets (good will, patent right, copyright, etc.) and record them at any value they wish. Such an asset should be entered on the books at its actual worth, and of course should not be entered at all if it does not exist. Stock is "watered" by the unfair use of these accounts.

Illustration: If a partnership in which the interests of the proprietors should aggregate $30,000 should capitalize for $50,000, the difference of $20,000 would represent the nominal assets such as good will, etc. Accounts should be opened with good will, etc., and debited in the aggregate $20,000. The proprietors' interests in the $50,000 of capital stock would bear the same proportion to each other as their investment accounts had borne to each other before the change from a partnership to a corporation was effected.

The business of the corporation can be kept in the same books that were used by the partnership, or the accounts can be transferred from the old books to an entirely new set of books

CONDITION 5. J. R. Conway has invented an Adding Machine and had it patented. He does not have the funds to begin the manufacture and sale thereof. A corporation

is organized with a capital stock of $200,000.00. The services of a promoter are engaged, and Fred H. Barnes, E. G. Howard and J. C. Williams, capitalists, are interested in the venture. The stock is issued at a par value of $100.00 per share as follows:

J. R. Conway, 850 shares, paid for in full by his Patent Right, valued at $85,000.00:

D. B. Decker, promoter, 100 shares in full of his services.

Fred H. Barnes, 500 shares, to be paid for by real estate valued at $50,000.00, to be deeded to the company and used as a factory site.

E. G. Howard, 400 shares, to be paid for in Sundry Machinery and Tools from his own factory, which he has decided to abandon. Property value, $17,850.00. The balance he pays in cash.

J. C. Williams, 150 shares, paid for in cash less a stock discount of 5%: What entry?

Patent Right		$85,000.00	
Promotion Expense,		10,000.00	
Real Estate,		50,000.00	
Machinery and Tools,		17,850.00	
Cash	E. G. Howard, $22,150.00 J. C. Williams, 14,250.00	36,400.00	
Stock Discount,		750.00	
	Capital Stock,		$200,000.00

Promotion Expense. It is customary to engage promoters in new ventures, because of their connection with capitalists who are seeking investments. For his services, the promoter is generally paid in cash or in stock of the new company or both. His services are an expense to the business, and should be charged to "Promotion Expense." This account stands as an asset, although a very doubtful one. It should gradually be written off into Loss & Gain until wiped off the books.

Stock Discount. This is an allowance which is binding between the company and the stockholder, but should a creditor attack the corporation and the firm assets be insufficient to pay its debts, the stockholder could be compelled to pay the balance due on the par value of his stock. Too much emphasis cannot be laid upon the necessity for caution in the matter of buying subscription stock that is not fully paid up. The buyer incurs a liability for the payment of the balance. Such stock is not cheap, even if given to the subscriber. In case of the failure of the corporation, *it may eventually cost him full par value,* for he may be held by creditors for the full amount of the unpaid balance.

EXERCISES

Journalize

Jan. 1, 19—. The National Adding Machine Co. has incorporated with a capital stock of $70,000.00, all paid in in cash.

Feb. 1, 19—. J. C. Walker, patentee of a wheel brake for wagons, has organized the Walker Wheel Brake Company, a corporation for manufacturing and selling the device. The total capital stock of the company is $200,000.00, of which Mr. Walker is allowed 75 shares of $100.00 each, as fully paid up, for his patent. The rest of the capital stock is paid in in cash.

March 1, 19—. The $100,000.00 capital stock of the Wheeling Coal Mining Co. is all subscribed for, but only 65% is paid in, the balance being payable upon call of the directors. Of the amount paid in, $50,000 was paid in cash by subscribers A, B, C, and D; $10,000.00 was given by the company to E. G. White, owner of the land, for a ten-year lease on the land; and $5,000.00 was given to H. A. Swigart for promotion services.

*Apr. 1, 19—. A corporation has been organized under the name "The Burwick Soap Co.," capitalized at $150,000.00. Two-thirds of the capital stock has been subscribed for. $80,000.00 has been paid in, as follows, the balance being payable on call: Cash from stockholders A, B, C, and D, $50,000.00. Real estate, from A. G. Sedgwick, $10,000.00. Mdse and good will, from G. H. Bronson, $8,000.00 and $7,000.00, respectively. Promotion services of Benj. H. Waters, $5,000.00.

*This problem not applicable to an Illinois corporation.

*May 1, 19—. The Metallic Motor Co., Inc., has been organized with a capital stock of $90,000.00. 80% of this has been subscribed, half paid in, balance payable on call.

June 1, 19—. A call has been issued by the directors for half of the unpaid balances on subscriptions to the stock of the Metallic Motor Co., Inc. All of this is paid in in cash, except $5,000.00, which amount was paid in by one of the stockholders in U. S. 2% Gold Bonds of 1913.

July 1, 19—. A. C. Brink owns a factory site worth $10,000.00. C. E. Gailey owns a patent right worth $12,000.00. F. W. Schramm owns machinery worth $10,000.00. H. H. Harris agrees to promote the organization of a $100,000.00 corporation for the purpose of manufacturing Mr. Gailey's patented article, and to devote two years of his time to the purpose in exchange for $10,000.00 stock in the company. Mr. Brink, Mr. Gailey, and Mr. Schramm are to invest the real estate, patent right and machinery above mentioned, receiving stock in equal exchange therefor. The rest of the $100,000.00 is raised by subscription, 80% of which is to be in cash, the balance upon call.

Aug. 1, 19—. Smith, Cole and Johnson are partners whose respective investments are $10,000.00, $9,000.00, and $6,000.00. They decide to incorporate. They estimate the value of the good will of the business at $10,000.00, which is added to their investment in determining the amount of capital stock. Smith, Cole and Johnson divided the capital stock in the same proportion as their original investments.

Sept. 1, 19—. During August the books of the new corporation exhibited a profit of $300.00, and Smith, who wishes to unload his stock, finds a buyer whom he convinces that the company can be relied upon to make a minimum net profit of $3,500.00 per year, or 10% on its capital. The buyer wishes his money to return him 7% per annum, and purchases Mr. Smith's stock at a price determined by his desire to make 7%, and his belief that the company's profit will be $3,500.00 a year. What does the buyer pay Mr. Smith? How much does this exceed Mr. Smith's original investment as shown by the partnership books before incorporation?

ACCOUNTS SHOWING DISTRIBUTION OF THE PROFITS

The plan of distribution of the profits of a corporation requires the presence in the ledger of certain accounts not kept in a proprietary business.

The Undivided Profits Account

The profits of the business instead of being carried directly to a proprietor's account or accounts are transferred to an Undivided Profits account. The profits which appear in the undivided profits account are distributed into the various fund and reserve accounts, and the Dividend account. The amount carried to the dividend account depends, of course, on how much is left after the fund and reserve accounts have been cared for.

The Dividend Account

When dividends are declared the total amount of the appropriation for this purpose is transferred to the credit of the dividend account by a proper closing entry, or by a journal entry. This amount remains on the credit side of the dividend account, until paid out in cash to the shareholders. When paid out in cash, the cash account is credited and the dividend account is debited. Sometimes dividends are declared which are not to be paid until some future date. In this case, the dividend account exhibits a balance of the

*This problem not applicable to an Illinois corporation.

amount of dividends declared, but not paid. In such a case, dividend warrants might be issued to the stockholders who would hold them as evidences of debt until time for their redemption.

ISSUING BONDS

A corporation in need of money may secure it by issuing bonds. A bond is the corporation's promise to pay. It corresponds to the promissory note of an individual, except that it is more formal, and is under seal. The following comparison of individual and corporation obligations will shed some light on the nature of a bond:

Individual Obligations.	*Corporate Obligations.*
Unsecured Note. - - - - - - - - -	Debenture Bond.
Principal Note Secured by Mortgage. - -	Mortgage Bond.
Collateral Note. - - - - - - - - - -	Collateral Trust Note.

The title of a bond may indicate the purpose for which it has been issued, the manner of its redemption, the time of its maturity, the name of the corporation issuing it; or it may indicate any or all of these things. "U. S. 2% Gold Bonds, 1914," is a proper designation for a bond issued by the government, bearing 2% interest, maturing in 1914, and payable in gold. "Municipal Bonds" are bonds issued by cities and other municipal corporations. In one instance bonds issued to raise money for building a bridge were named "City Bridge Bonds."

Debenture Bonds are unsecured bonds, and correspond to the unsecured promissory note of an individual.

Mortgage Bonds are those secured by a mortgage on the corporation's property. "First Mortgage Bonds," "Second Mortgage Bonds," "General Mortgage Bonds," etc., are bonds of this kind.

Money may be more readily secured by the sale of corporation bonds than by the negotiation of a loan by an individual or firm. It is easier to float a bond issue of $20,000.00 divided into separate bonds of $500.00 each, than to find one individual or syndicate which will loan $20,000 00 in a lump sum. Bonds and promissory notes are alike in that both are usually secured by the property of the borrower.

When a corporation issues bonds, a bond account should be opened on the books under a title which sufficiently describes it, as "First Mortgage Bonds," "Bonds of 1920," etc. When the bonds are disposed of for cash, the journal entry is:

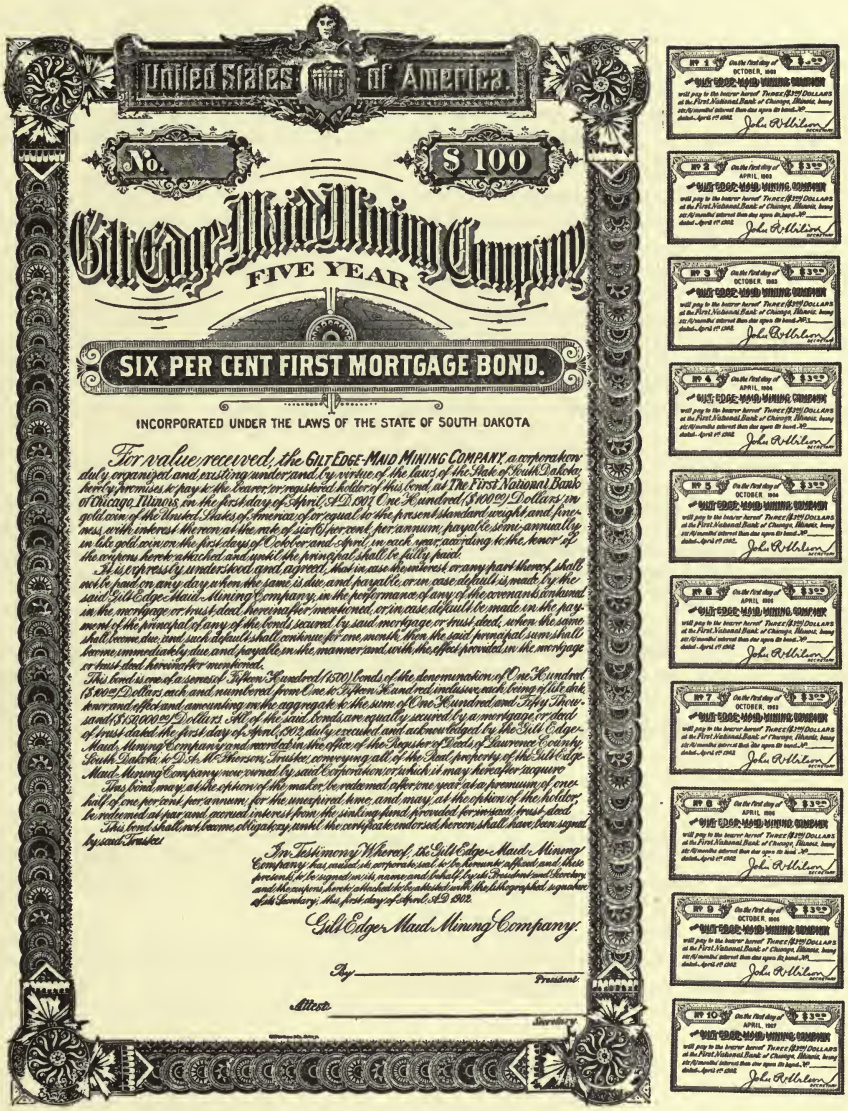
Dr. Cash,
    Cr. The bond account (under proper title).

If the bond be sold at a discount and a commission be paid an agent for selling, the entry is:

Dr. Cash.
Dr. Bond Brokerage.
Dr. Bond Discount.
    Cr. The bond account (under proper title).

The bond account is a liability account the same as the Bills Payable account, since both represent amounts due.

COUPON BOND


United States of America.
No.
$ 100
Gilt Edge Maid Mining Company
FIVE YEAR
SIX PER CENT FIRST MORTGAGE BOND.
INCORPORATED UNDER THE LAWS OF THE STATE OF SOUTH DAKOTA
For value received, the GILT EDGE-MAID MINING COMPANY, a corporation duly organized and existing under and by virtue of the laws of the State of South Dakota, hereby promises to pay to the bearer or registered holder of this bond, at The First National Bank of Chicago, Illinois, on the first day of April, A.D. 1907 One Hundred ($100.00) Dollars, in gold coin of the United States of America, of or equal to the present standard weight and fineness, with interest thereon at the rate of six (6) per cent. per annum, payable semi-annually in like gold coin on the first days of October and April, on each year, according to the tenor of the coupons hereto attached and until the principal shall be fully paid.
It is expressly understood and agreed, that in case the interest or any part thereof, shall not be paid on any day when the same is due, and payable, or in case default is made by the said Gilt Edge-Maid Mining Company, in the performance of any of the covenants contained in the mortgage or trust deed, hereinafter mentioned, or in case default be made in the payment of the principal of any of the bonds, secured by said mortgage or trust deed, when the same shall become due, and such default shall continue for one month, then the said principal sum shall become immediately due and payable in the manner and with the effect provided in the mortgage or trust deed herein after mentioned.
This bond is one of a series of Fifteen Hundred (1500) bonds of the denomination of One Hundred ($100.00) Dollars each and numbered from One to Fifteen Hundred inclusive, each being of like date, tenor and effect and amounting in the aggregate to the sum of One Hundred and Fifty Thousand ($150,000.00) Dollars. All of the said bonds are equally secured by a mortgage or deed of trust dated the first day of April, 1902 duly executed and acknowledged by the Gilt Edge-Maid Mining Company and recorded in the office of the Register of Deeds of Lawrence County, South Dakota, to D. H. Peterson, Trustee, conveying all of the Real property of the Gilt Edge-Maid Mining Company now owned by said Corporation or which it may hereafter acquire
This bond may at the option of the maker be redeemed after one year at a premium of one-half of one per cent. per annum, for the unexpired time, and may, at the option of the holder be redeemed at par and accrued interest from the sinking fund, provided for in said trust deed
This bond shall not become obligatory until the certificate endorsed hereon shall have been signed by said Trustee
In Testimony Whereof, the Gilt Edge-Maid Mining Company has caused its corporate seal to be hereunto affixed and these presents to be signed in its name and behalf by its President and Secretary and the coupons hereto attached to be authenticated with the lithographed signature of its Secretary, this first day of April A.D. 1902
Gilt Edge Maid Mining Company.
By _____ President.
Attest _____ Secretary.
SECURED
MORTGAGE

The coupons, which are shown in the above illustration as attached to the right edge of the bond, may be attached to the bottom of the bond or, when there are many, may constitute a full page which is attached to the bond. Each coupon is a note for a half year's interest and each bears a different date. As each interest payment falls due, a coupon is detached and exchanged for cash. Study the form carefully.

The Bond Sinking Fund

A bond issue constitutes a debt owed by the corporation. The lenders (bondholders), naturally wish to be assured that the debt will be paid at the time agreed upon, i. e., the time of maturity of the bonds. Therefore, it is usually made one of the provisions of the bond that the corporation binds itself to create a sinking fund and periodically to place therein amounts which will in time redeem the bonds. A sinking fund usually, therefore, not only provides for the redemption of bonds at maturity, but operates as a guaranty to bondholders that the bonds will be paid.

Sinking Funds may be treated in either of two ways:

1. When the corporation has bound itself, as explained above, to set aside a part of its profits for the purpose of redeeming the bonds, specific assets, usually cash, should be definitely reserved. If the asset so set aside consists of cash, the proper journal entry is:

Dr. Sinking Fund Assets.
Cr. Cash.

2. When the sinking fund is created for the purpose of meeting a future obligation, but there exists no agreement to set aside specific assets, the corporation may elect to create a merely nominal reserve out of its profits. The proper entry for this would be:

Dr. Undivided Profits.
Cr. Sinking Fund Reserve.

This plan would permit the assets to remain in the business as a part of its working capital, instead of being actually set aside where they could not be touched. The sinking fund reserve so created would be an auxiliary account, subordinate to the Undivided Profits account. It would contain a part of the profits, which part has been taken out of the Undivided Profits account as a precaution, to prevent its distribution as dividends.

ILLUSTRATIONS OF JOURNAL ENTRIES

CONDITION 1. The Western Manufacturing Company is financially embarrassed. A meeting of stockholders has been held, and it has been decided to issue and market preferred stock to raise funds. The stockholders are agreed, and legal permission having been obtained, 2,000 shares are issued at $100 each, and sold in the open market for cash.

Entry:

Dr. Cash.
Cr. Capital Stock Preferred.

In case of both common and preferred stocks, separate Capital Stock Accounts should be kept in the General Ledger, as well as separate stock ledgers. Each stock ledger will prove with its own account.

CONDITION 2. Suppose some of the larger stockholders at the above meeting had decided to donate 1,000 shares of their stock to the company for future sale, to raise the much-needed funds. The entries would be:

In Journal:

Dr. Treasury Stock.
Cr. Undivided Profits.

In Stock Ledger:

Dr. Donors.
Cr. John Smith, Treasurer (as trustee).

CONDITION 3. Suppose that the company had decided by a unanimous vote to raise the funds by assessment. The following entry would be made.

Dr. Assessment No. 1.
Cr. Undivided Profits (or other suitable account).

On the debit side of the assessment account post the names of stockholders and amount due from each. When they pay, credit Assessment account opposite proper debit.

CONDITION 4. Suppose that the company had decided to issue First Mortgage Bonds to raise the money, and sell them to the public.

No entry would be made, except as the bonds are sold; then:

Dr. Cash.
Cr. First Mortgage Bonds.

CONDITION 5. If the company had decided to establish a Sinking Fund to meet these bonds at maturity and to make deposits with trustees at regular intervals for such purpose, the following entry would be made as each cash deposit is made with the trustees:

Dr. Sinking Fund Assets.
Cr. Cash.

CONDITION 6. When the company creates a reserve for the above sinking fund, the following entry is made.

Dr. Undivided Profits.
Cr. Reserve for Sinking Fund.

CONDITION 7. Suppose that 500 donated shares are sold at $90.00 per share:

In Journal
Cash $45,000.00.
Stock Discount, 5,000.00.
Treasury Stock, $50,000.00.

In Stock Ledger
Dr. John Smith, Treasurer.
Cr. Purchasers.

Paying Off the Bonds

CONDITION 1. The periodical reservations of cash now amount to the total of the bond issue. All the cash so reserved is now used with which to pay the bonds, and the following entry made:

Dr. The bond account (under proper title).
Cr. Sinking Fund Assets.

CONDITION 2. When a nominal reserve which has been created out of the Undivided Profits account has reached an amount equal to the amount of the bond issue, pay off the bonds making the following entry:

Dr. The bond account (under proper title).
Cr. Whatever assets are given in payment (usually cash).

As the contingency for which the Sinking Fund Reserve account was created no longer exists, close this account back into undivided profits by the following entry:

Dr. Sinking Fund Reserve.
Cr. Undivided Profits.

CORPORATION SET

A Manufacturing Business

Characteristics:

In the following set, emphasis is placed on those transactions and entries which are peculiar to corporations and corporation accounting. The voucher system is used for the payment of bills, no accounts payable being kept. Cost of production is shown through cost accounts which are kept separate from the general expense accounts and which are closed into the Production account. Profit distribution to the reserve accounts and the Dividend account, and the use of the Undivided Profits account, are illustrated in a simple manner.

BOOKS USED

Subscription Book.
Stock Certificate Book, and stub.
Stock Ledger.
Installment Receipt Book, and stub
Installment Ledger.
} Described on pages 15 and 16.

Cash Book—described on pages 28 and 29.
Sales Book—usual form.
Vouchers Payable Register—described on pages 32 and 33.
Journal—usual form.
Petty Cash Book—described on page 36.
General Ledger—usual form.

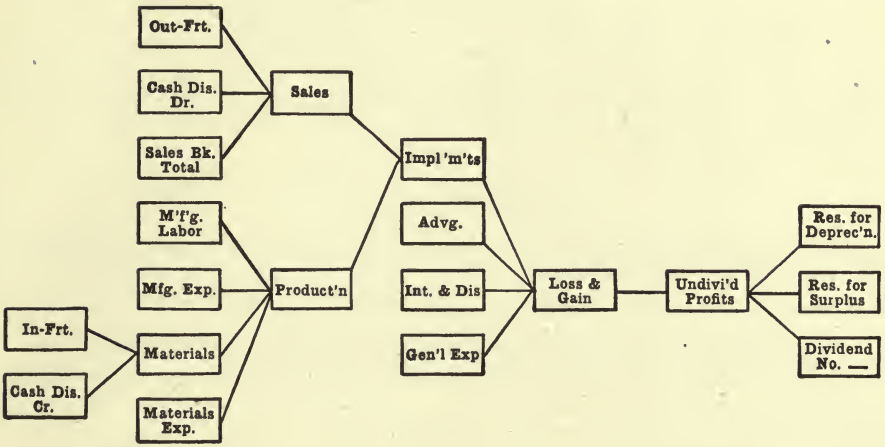
Sales Ledger—This book has an extra column on the credit side for discounts, the net amount received being entered in the general column. Credits are posted to the Sales Ledger on the line exactly opposite the corresponding debits. The sales accounts are kept separate from the general accounts for no other reason than that a different ruling is used. Consider the Sales Ledger as a part of the General Ledger in taking trial balances.

ACCOUNTS KEPT

Stock Ledger accounts, one-fourth page each.
Installment Ledger accounts, one-fourth page each.
Sales Ledger accounts, one-fourth page each.
General Ledger accounts as follows:

Capital Stock	8 lines	Manufacturing Labor	21 lines
Subscription	12 lines	Manufacturing Expense	21 lines
Notes Receivable	10 lines	Materials	21 lines
Factory & Site	12 lines	Materials Expense	18 lines
Tools & Machinery	12 lines	In-Freight	12 lines
Notes Payable	10 lines	Cash Discount Cr.	12 lines
Vouchers Payable	12 lines	Sales	21 lines
Southern Pine Lumber Co.	8 lines	Out-Freight	21 lines
Weyerhauser & Co.	8 lines	Cash Discount Dr.	16 lines
Loss & Gain	16 lines	Reserve for Depreciation	8 lines
Advertising	18 lines	Reserve for Surplus	8 lines
Interest & Discount	21 lines	Dividend No. 1	8 lines
General Expense	1 page	Dividend No. 2	8 lines
Implements	21 lines	Undivided Profits	8 lines
Production	21 lines		

CLASSIFICATION OF LOSS OR GAIN ACCOUNTS



EXPLANATION. The above diagram shows the relation of the various loss or gain accounts to each other, and indicates what account each group of accounts closes into. Out-Freight, Cash Discount Dr., and the Sales Book total, close into the Sales account. Manufacturing Labor, Manufacturing Expense, Materials, and Materials Expense close into Production (after In-Freight and Cash Discount Cr., which are subordinate to Materials, have been closed into Materials). Sales and Production, which now exhibit respectively the net returns on merchandise and the gross cost of manufacture, are closed into Implements, which is the Merchandise account.

Implements, Advertising, Interest & Discount, and General Expense, are now closed into Loss & Gain. The net profit shown by the Loss & Gain account is transferred to the Undivided Profits account, from which appropriations are made from time to time for the Reserve for Depreciation, the Reserve for Surplus, and the Dividend accounts.

Note. Reserves and dividends could be taken directly from the Loss & Gain account, thus dispensing with the Undivided Profits account. There are two reasons, however, why this would not be a desirable plan. First, the Loss & Gain account would have to carry a balance (undivided profits) and its result at the time of closing would not be the profit for the period covered by the closing. Second, the distribution of profits directly from Loss & Gain would have the same effect on the result of that account. Under the arrangement suggested in the outline, the Loss & Gain account summarizes the profits and losses, and the Undivided Profits account distributes them, the closing entry always indicating the net profit for the period before depreciation is written off.

Note. The Production account is not closed into the Implements account at the end of the month by the customary closing entry, but the cost of production is transferred to the Implements account by frequent journal entries debiting Implements and crediting Production for the finished implements turned out of the factory, at their estimated cost. At the end of the month there will exist a slight difference between the two sides of the Production account, occasioned by the impossibility of exactly estimating cost. This will be closed to the Implements account.

TRANSACTIONS

A corporation has been organized under the name of The Acme Manufacturing Company, located at 1220 Michigan Ave., Chicago, Ill. Its object is the manufacture and sale of agricultural implements. Its capital stock is $100,000.00, divided into 1000 equal shares of $100.00 each. You are employed as bookkeeper, at a monthly salary of $75.00. The secretary hands you the following subscription list, requesting you to copy it into the proper book of record:

SUBSCRIPTION LIST

We, the undersigned, hereby subscribe for the amount of Capital Stock in The Acme Manufacturing Company set opposite our names and seals, and agree to pay the calls upon the said stock as they shall be made by the directors of said company.

Date		No. of Shares	Amount	Signature and Seal		Residence
19—						
April	8	Two Hundred Shares	20000	J. E. Colby	(Seal)	Chicago, Ill.
	8	Two Hundred Shares	20000	H. M. Miller	(Seal)	Champaign, Ill.
	8	Two Hundred Shares	20000	C. J. Barber	(Seal)	Chicago, Ill.
	8	One Hundred Fifty Shares	15000	R. E. McCarthy	(Seal)	Milwaukee, Wis.
	9	One Hundred Fifty Shares	15000	W. L. Sampson	(Seal)	Oak Park, Ill.
	9	One Hundred Shares	10000	A. F. Harvey	(Seal)	Waterloo, Iowa.

This subscription list binds and makes responsible the subscribers for stock whose original signatures appear thereon.

Placing a seal after the signature adds solemnity to the contract. When a contract is under seal, consideration is presumed.

The above signatures were duly acknowledged as required by law.

Write headings in your Stock Subscription Book as in the above list, except that the word "Name" is written instead of the words "Signature and Seal" in the second wide column, and copy the subscription list therein. As yours is only a copy of the original subscriptions and signatures, it will not be necessary for you to set a seal opposite each name as shown in the list. In practice the original subscriptions are usually written directly into the Stock Subscription Book.

The narrow column at the extreme right hand side in the blank book is not shown on the list. This column is for the page of the Installment Ledger on which the subscriber's account is kept. Head it "L. F."

Make a journal entry debiting Subscription and crediting Capital Stock, followed by an explanation referring to the list of subscribers on page 1 of the Stock Subscription Book. Date this entry April 9.

In the Installment Ledger debit each subscriber for the amount of his stock subscription, entering the ledger page in the last column of the Stock Subscription Book.

Before making any entries in the Installment Ledger, write the headings of the various columns as shown in the following form:

W. L. SAMPSON

Date			No. Shares	Fol.	Amount	Date		Install-ment No.	%	Receipt No.	Amount
19—						19—					
April	9	Subscription	150	1	15000	April	20	1	50%	5	7500
						May	14	2	25%	11	3750
							27	3	25%	17	3750
					15000						15000

In making an entry in the Installment Ledger use as an explanation the word "Subscription" and the number of shares subscribed for, and enter the page of the Stock Subscription Book from which the item is posted.

The first installment of 50% of the capital stock has been paid by all subscribers in cash. The treasurer hands you Installment List No. 1 and asks you to make the proper entries. Note the date the call was made and the dates upon which the several payments were made.

INSTALLMENT LIST NO. 1

In accordance with a resolution of the board of directors of The Acme Manufacturing Company, a first call of fifty per cent of the capital stock of said company is due and payable on the 10th day of April, 19—.

Date Recd		L. F.	Subscriber	No. Sh.	Installm't		Interest		Am't Recd		Remarks
19—											
April	10		J. E. Colby	200	10000				10000		
	10		H. M. Miller	200	10000				10000		
	10		C. J. Barber	200	10000				10000		
	20		R. E. McCarthy	150	7500		12	50	7512	50	
	20		W. L. Sampson	150	7500		12	50	7512	50	
	20		A. F. Harvey	100	5000		8	33	5008	33	
					50000		33	33	50033	33	

Make a ruling for the above form on a separate sheet of paper and make a copy of the list, which you will preserve.

Make two entries on the debit side of your Cash Book dated April 10 and April 20 respectively crediting Subscription, and one entry crediting Interest and Discount. (The interest was due from McCarthy, Sampson and Harvey because they did not pay the installment promptly upon call.) All three entries are to be made in the General Column. Do not make them until you have carefully studied the form of Cash Book shown on pages 28 and 29, and the explanation below it.

CASH DR.

19—					C. Dis. Dr.		General	
Apr.	10		Subscription	Installm't No. 1 Receipts 1, 2, 3			30000	
	20		Subscription	Installm't No. 1 Receipts 4, 5, 6			20000	
	20		Interest & Discount	Int. on above, as per Inst. List No. 1			33	33
May	11	V	Sales	per S. B. 1			935	60
	13		J. C. Houston	Inv. of May 3 less 2 %	12	72	623	28
	..	..	.....	.....	..	..	..	..
	18	V	Notes Receivable	as per J2			1120	
	18		Cash Discount Dr		**	**		
							*****	**
	20	V	Balance				*****	**

EXPLANATION OF CASH BOOK. The regular two-column ruling is used. The left hand column on both debit and credit sides is a discount column. When we receive cash less a discount from a customer, enter the net amount received in the General column, and the amount of the discount in the Cash Discount Dr. column. Post both the discount and the net payment to the credit of the customer. In closing the Cash Book the total of the discount will not be added into the General column, but will be posted to the Cash Discount Dr. account.

Issue installment receipts to the stockholders for the amounts of their first payments, using the following form. When interest is included add the words "and interest, $**.**" to the paragraph acknowledging receipt.

INSTALLMENT RECEIPT AND STUB

Installment Receipt No. 2
Dated April 10 19—
First installment of 50 %
on
200 *Shares*
of $100.00 each.
Amount $10000 00
Installment L. F. 8

Received receipt for this installment.

Subscriber.

*Signature of H. M. Miller.

$10000 00 — 200 Shares of $100 each

The Acme Manufacturing Company

Installment Receipt No. 2

Received of H. M. Miller

Ten Thousand & no/100 — Dollars,

being the first call of 50 per cent on 200 shares of the capital stock of The Acme Manufacturing Company.

The said shares are set aside for him or his assigns, on condition that he or they fulfill the terms of this contract.

In Witness whereof, *we hereunto subscribe our names, in the city of* Chicago this 10th day of April 19—

SEAL

C. J. Barber, *Secretary and Treasurer.* J. E. Colby, *President.*

CASH CR.

19—					C.Dis. Cr.		General	
May	1	✓	Voucher No. 1	Critchell & Whitney			30000	
	3	✓	Voucher No. 4	C. R. I. & P. R. R.			18	25
	3	✓	Voucher No. 6	Ford & Wilson			8	50
	3	✓	Voucher No. 8	C. B. & Q. R. R.			6	50
	3	✓	Voucher No. 9	Payroll			125	60
	..	..	.....	.....	..	..	..	..
	..	..	.....	.....	..	..	..	..
	..	..	.....	.....	..	..	..	..
	18	✓	Voucher No. 24	Edna Wilson			12	50
	18		Cash Discount Cr. and Vouchers Payable Dr.		**	**		
	18		Vouchers Payable Dr.				*****	**
	18			Balance†			*****	**
							*****	**

†This line and all rulings to be in red ink.

When we pay the full amount called for by any voucher, an entry will be made on the credit side of the Cash Book in the General column, the number of the voucher and the name of the person paid being used as explanation. Should we pay a bill less a discount, the net amount only will be entered in the General column, the discount being entered in the Cash Discount Cr. column. The total of the Cash Discount Cr. column is posted to the debit of Vouchers Payable and to the credit of Cash Discount Cr., and is not added into the General column. The total of the General column is posted to the debit of Vouchers Payable. You have no use for the L. F. column on the credit side of the Cash Book. You may ignore it, or check it as each entry is made.

Write the proper headings in your Cash Book before making any entries.

The signature of W. H. Miller, vice-president, should appear on the receipt issued to J. E. Colby, in place of Mr. Colby's signature, and on the receipt issued to C. J. Barber, in place of Mr. Barber's signature. It is not considered the best practice for an official to sign a receipt issued to himself, even when the receipt has the signature of two officials.

Your teacher will sign the receipts for all officials or will authorize some one to sign them.

Post from the stubs of the receipts to the credit of the subscribers to whom the receipts were issued, as shown in the illustration of W. L. Sampson's account on page 27. The "Receipt No." column is equivalent to a folio column. Enter the ledger folios in the spaces provided for that purpose on the stubs.

May 1. The Acme Manufacturing Company has this day purchased of Critchell & Whitney, Chicago, Ill., their plant located at 1220 Michigan Ave., and other assets, as

follows, Critchell & Whitney retaining all their old accounts, both receivable and payable:

Factory & Site	$16500.00
Tools & Machinery	13500.00
Materials on hand	4500.00
Implements (finished)	2430.50
G. E. Baker's 90-day note dated April 1	1650.00
Interest on above, ** days at 6%	*.**
M. L. Rankin's note at 6% dated Mar. 11 and due six months after its date	3500.00
Interest on above ** days at 6%	**.**

Payment was made to Critchell & Whitney as follows: Cash was paid for Factory & Site and Tools & Machinery, and an agreement was made to pay the balance, $*****.**, on July 1, this time being allowed by Critchell & Whitney in which to collect the notes and dispose of the materials and implements on hand.

THE VOUCHER SYSTEM

One of the by-laws of the company is that the bills are to be paid by the treasurer, who must be able to show a voucher for every disbursement of cash, which voucher shall be signed by the president of the company and by the person, firm, or corporation receiving the money. (Your teacher will instruct you as to how these signatures may be secured.) Whenever anything is bought or it is necessary for funds to be paid out by the treasurer for any purpose, you must fill out a *voucher*, showing all necessary facts in regard to the disbursement. This voucher must then be signed by the president, who acts upon authority conferred by the directors.

In every case the voucher is to be made out and signed by the president *at the time the obligation is incurred*, and will remain attached to the stub until time for payment. You will then detach the voucher from its stub and deliver it to the treasurer for payment. He will see that the receipt is signed and the voucher returned to you.

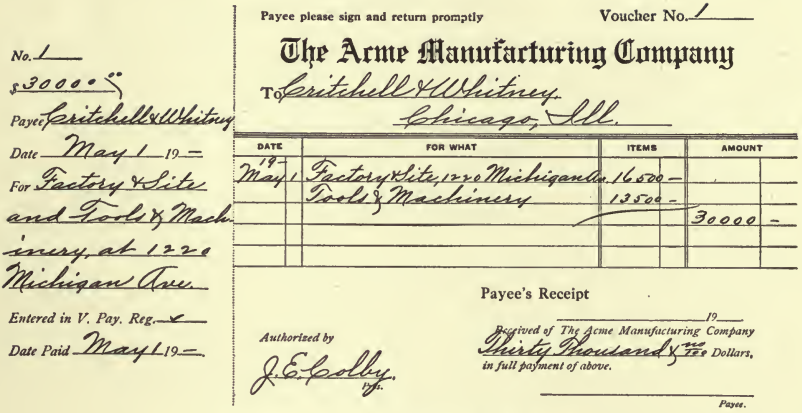
Fill out a voucher for the payment of $30000.00 to Critchell & Whitney, as shown by the form on page 31.

Note. Vouchers and checks are sometimes combined in the "Voucher check." When voucher checks are used the return of the voucher by the payee is assured, as the voucher check is returned to the drawer through the bank the same as any other check. Banks do not like to handle voucher checks, because they are cumbersome and impose too great a responsibility upon the bank which honors them. From the standpoint of the business man it is objectionable to combine the voucher and check because the voucher is made out at the time the obligation is incurred, while the check should be made out at the time of payment; and for the further reason that the return of the voucher is delayed when it must pass through the bank. On the whole, the plan of issuing vouchers and checks separately is the better.

At the time the voucher is filled out, the amount is written in the form of "Payee's Receipt" (as a convenience to the payee), and the stub is filled out all except the last two lines.

Make out voucher No. 2 for the balance due Critchell & Whitney on July 1. This voucher should contain a list of the items covered by it. The voucher will not be detached until time for payment.

FORM OF VOUCHER AND STUB



No. 1
$30000.00
Payee Pritchell & Whitney
Date May 1 19—
For Factory & Site and Tools & Machinery, at 1220 Michigan Ave.
Entered in V. Pay. Reg. ✓
Date Paid May 1 19—

Payee please sign and return promptly

Voucher No. 1

The Acme Manufacturing Company

To Pritchell & Whitney
Chicago, Ill.

DATE	FOR WHAT	ITEMS	AMOUNT
19— May 1	Factory & Site, 1220 Michigan Ave.	16500—	
	Tools & Machinery	13500—	
			30000 —

Payee's Receipt

19—

Received of The Acme Manufacturing Company Thirty Thousand & 00/100 Dollars, in full payment of above.

Payee.

Authorized by
J. E. Colby, Pres.

THE VOUCHERS PAYABLE REGISTER

It is now necessary to record Vouchers No. 1 and 2 in the Vouchers Payable Register. All items payable (including cash items payable at once) are entered in the Vouchers Payable Register as soon as the account is contracted or the obligation is incurred; in other words, at the time the voucher is filled out. No accounts payable are opened in the Ledger, because it is the intention of the directors to pay each invoice as it falls due. When bills are paid the fact of their payment is recorded in the proper column. Until paid, the fact that they are unpaid may be readily ascertained by an inspection of the Vouchers Payable Register. There would be nothing gained by keeping accounts with creditors.

The form on pages 32 and 33 shows the first four vouchers. Study the form and its explanation now, copy the headings, and make the entries for Vouchers No. 1 and 2. These two vouchers are for the same transaction but are made separate for convenience.

The transaction on May 1 is quite an important one, and somewhat complicated. You will therefore turn to your Journal, after making the two entries in the Vouchers Payable Register, and make a full memorandum therein of this entire transaction with complete explanations. Write no amounts in the money columns, as this memorandum will not be posted.

As soon as the first two vouchers have been recorded properly, detach Voucher No. 1 from its stub, check the entry on the stub, enter the date of payment on the stub, *brief* the voucher, and deliver it to the treasurer for payment. Fill out the When & How Paid column in the Vouchers Payable Register.

Briefing the Voucher. For convenience in filing and ease of reference, the voucher should be "briefed." The form of brief is printed on the back of the voucher. The best time to fill this out is when the voucher is detached for payment. The form of brief is simple, and needs no special explanation.

Make the entry for Voucher No. 1 in the Cash Book at this time.

May 2. Bought of D. C. Wade, 2691 Lake Ave., City, 2½ M ft. oak lumber, at $80.00 per M ft., bill dated May 2, terms 1/10, n/30.

VOUCHERS PAYABLE

No.	Date		Payable to	Address	Dating		Terms	Due Date		
	19—				19—					
1	May	1	Critchell & Whitney	Chicago, Ill.	May	1	Cash	May	1	19—
2		1	Critchell & Whitney	Chicago, Ill.	May	1	2mo	July	1	19—
3		2	D. C. Wade	2691 Lake St., City	May	2	1/10 n/30	May	12	19—
4		3	C. R. I. & P. R. R.		May	3	Cash	May	3	19—

EXPLANATION OF VOUCHERS PAYABLE REGISTER.

Note that this form extends across two pages. The vouchers are entered in the order of their number. The date at the left of the form is the date of the entry. The "Dating" is the date given to the bill by the seller. When goods are shipped to us from outside of the city this dating will be a day or two previous to the date of our entry, unless the invoice be "dated ahead" by agreement. The due date is ascertained from the dating and terms. The bookkeeper should examine the Due Date column daily. A separate space for the year date is given in the Due Date column, as year dates might alternate in this column. The amount of the voucher is entered in the Vouchers Payable Cr. column, the total of which is posted to the Vouchers Payable account in the Ledger. The number

VARIABLE PRICE LISTS

Your teacher will instruct you to use the prices given in the book or will assign to you one of these price lists. If a special price list is assigned, use the prices it quotes on the articles named. On all other articles use the prices given in the text. Always use the same list number for selling prices and buying prices.

BUYING PRICES

ARTICLE	LIST 1	LIST 2	LIST 3	LIST 4	LIST 5	LIST 6	LIST 7	LIST 8	LIST 9	LIST 10
Oak lumber	$75.00	$75.50	$75.60	$76.00	$76.50	$77.00	$77.50	$78.00	$79.00	$79.50
Bar steel	3⅜	3½	3¼	3⅜	3½	3⅜	3½	3⅜	3⅜	3⅝
Steel castings	3⅞	4⅛	4	3⅞	3¾	3⅞	3⅞	4⅛	4	4¼
Hickory lumber	$35.25	$34.25	$34.00	$34.50	$35.00	$36.00	$37.00	$38.00	$34.50	$34.00
Ash lumber, clear	39.90	39.80	39.75	39.50	39.25	39.00	38.75	38.50	38.25	38.00
White pine lumber	24.00	24.10	24.20	24.25	24.30	24.40	24.45	24.50	24.60	24.75
8d nails	4.50	4.60	4.70	4.50	4.40	4.30	4.25	4.50	4.40	4.60
Clinch nails	6.10	6.20	6.00	5.90	6.25	5.75	5.80	5.90	6.10	6.20

REGISTER

Vouch. Pay. Cr		Materials Dr.		Mfg. Labor Dr.		Sundry Accounts Dr.			L. F.	When and How Paid		
						Amount		Account		When		How Paid
										19—		
30000						$16500		Factory & Site		May	1	Cash
						13500		Tools & Mach.			✓	✓
*****		4500				2430	50	Implements				
						5150		Notes Rec.				
						**		Interest				
200		200							✓			
18	25					18	25	Out-Freight		May	3	Cash
*****	**	****	**	****	**							
(1)		(5)		(4)								

in the circle underneath the total shows the ledger page to which the total was posted. There are three debit columns, and each item should be entered in one of these three columns. The total of the Materials and Manufacturing Labor columns are posted to the debit of those accounts. All items besides Materials and Manufacturing Labor are entered in the Sundry Accounts Dr. column, from which they are separately posted to the proper accounts. The names of the accounts to be debited are written opposite all items in the Sundry column. A space for the ledger folio is given, but when items are written in either of the special columns (Materials or Manufacturing Labor, which are posted in total) a check mark is placed in the L. F. column. The "When and How Paid" columns are filled out when payment is made. One line is usually sufficient for each voucher, but two lines were devoted to Voucher No. 1 and three lines to Voucher No. 2, for convenience in posting. The addition of the Vouchers Payable Register may be proved at any time by determining whether the footings of the three debit columns, added, gives the total of the credit column.

SELLING PRICES (GROSS)

Article	List 1	List 2	List 3	List 4	List 5	List 6	List 7	List 8	List 9	List 10
Land rollers	$24.50	$25.00	$25.25	$24.25	$24.50	$24.75	$25.00	$24.70	$24.60	$24.30
Climax plows	8.50	8.60	8.70	8.80	8.90	9.00	9.10	9.20	9.30	9.40
E 29 chilled plows	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.90	3.85	3.95
No. 237 corn planters	37.90	37.80	37.70	37.60	37.50	37.40	37.30	37.20	37.10	37.00
No. 47 spring tooth harrows	12.90	12.80	12.70	12.60	12.50	12.40	12.30	12.20	12.10	12.00
No. 01 cultivators	17.10	17.20	17.30	17.25	17.50	17.70	17.75	17.80	17.90	17.50
Corn King disc harrows	22.00	22.10	22.20	21.90	22.00	22.25	21.75	22.00	22.10	22.20
Self dump hay rakes	21.00	21.25	21.00	20.75	20.50	20.60	20.70	20.80	20.90	21.00
Junior hay stackers	45.00	45.50	45.75	45.25	46.00	46.25	46.50	46.00	45.50	45.75
No. 4 gang plows	57.00	58.00	59.00	60.00	57.00	58.00	59.00	60.00	59.00	58.00
Hand dump hay rakes	15.00	15.25	15.50	16.00	16.25	16.50	16.00	15.00	15.50	15.00
B 26 riding cultivators	25.00	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00

Make out Voucher No. 3 and have it signed by the president. Let the voucher remain attached to its stub.

Before making the entry in the Vouchers Payable Register, determine whether it will be more advantageous to pay the bill on May 12 or June 1. If you find it will pay to discount the bill, enter May 12 as the due date. The Materials account is to be charged; you will therefore enter the $200.00 in the "Materials Dr." column, as well as in the "Vouchers Payable Cr." column. Check in the L. F. column. Do not fill out the "When and How Paid" column until the bill is paid. Check the voucher stub.

The treasurer has paid Critchell & Whitney the $30,000.00 called for by Voucher No. 1 and now returns to you the receipted voucher.

Note. Your teacher will instruct you as to who will sign the voucher for Critchell & Whitney. When it is signed, fold it so that the briefing will be on the outside, and file it away carefully.

May 3. Received from J. C. Houston, Peoria, Ill., an order for 24 No. 30 road plows at $13.50; 1 land roller, at $24.00; and 32 Climax plows, at $9.00. We have shipped these today via the C. R. I. & P. R. R., terms 2/10 n/30, and paid the freight charges of $18.25 ourselves.

Note. Wholesale implements are usually sold early in the year (in January or February) and shipped before the retailer's sales begin. The bills are usually given a June 1 dating, less 5% for cash on April 1, this dating and terms being given to all bills sold early in the season. The terms quoted Mr. Houston are not so liberal, as the sale was made later in the season. Bills for fall goods sold will be given the usual liberal terms.

Debit J. C. Houston in the Sales Book for the amount of the sale.

Fill out Voucher No. 4 for $18.25 for the freight. Secure the president's signature. Make the entry in the Vouchers Payable Register, charging Out-Freight. Assuming that the treasurer has given you a check for $18.25 which you have cashed, and that you have paid the freight agent, requiring him to sign the voucher, you will now file the voucher. Fill out the "When and How Paid" column in the Vouchers Payable Register.

Note. Your teacher will instruct you as to who will sign this voucher for the payee. All other vouchers will be signed for the payee in the same way. No further reference will be made to this matter.

Enter the $18.25 on the credit side of the Cash Book in the General column, as shown in the illustration of the Cash Book.

Note. It will be seen that the Vouchers Payable account is credited in the Vouchers Payable Register for $18.25, and debited through the Cash Book for the same amount (since the total of Cash Cr. is posted to the debit of Vouchers Payable). This debit and credit offset each other. The ultimate result of the two entries is that Out-Freight is debited through the Vouchers Payable Register, and Cash is credited in the Cash Book.

May 3. Bought from J. T. Ryerson & Son, 1821 21st St., 11679 lbs. bar steel at 3½¢ per pound, terms 2/10 n/30.

Make out Voucher No. 5. Let it remain attached to its stub. Enter the purchase in the Vouchers Payable Register, charging Materials. Check in the folio column.

May 3. Bought of Ford & Wilson, 229 State St., for cash, 10 gal. Machine Oil, at 85¢.

Make out Voucher No. 6. Make entry in the Voucher Payable Register, charging Manufacturing Expense. Detach the voucher and secure the president's signature.

You have shown the voucher to the treasurer, secured from him a check for the amount,

paid Ford & Wilson, and obtained their signature to the receipt. Enter the date of payment on the voucher stub. File the voucher. Fill out the When & How Paid column in the Vouchers Payable Register.

Note. Keep the vouchers in numerical order.

Make the entry in the Cash Book, using the proper explanations.

May 3. Bought of Robert Law, 491 E. 30th St., on account, 10 tons of nut coal, at $7.60.

Make out Voucher No. 7.

Record the voucher in the Vouchers Payable Register, charging Manufacturing Expense. No terms were written on the invoice, but it is understood that the bill is due the first of next month. You will therefore so record it.

May 3. Shipped today to J. L. Cashel, LaCrosse, Wis., via the C. B. & Q. R. R., 21 Climax plows, at $9.00, terms 2/10 n/30. Prepaid freight for him, $6.50, and charged his account for the Mdse and the freight.

Charge J. L. Cashel through the Sales Book for the amount of the Mdse.

Fill out Voucher No. 8 for the amount of the freight. Having obtained the president's signature to the voucher, secured a check from the treasurer for the $6.50, paid the freight agent, and secured his signature to the receipt, you will now file the voucher in its order.

Note. No further reference will be made to the procedure of securing the proper signature to the vouchers and paying the bills. It will be understood by you that this is always done, but hereafter you need only to fill out the vouchers, have them properly signed, and file them in numerical order.

Record Voucher No. 8 in the Vouchers Payable Register, charging *J. L. Cashel.* Make the entry in the Cash Book.

May 4. The weekly payroll is handed in today by the time-keeper, and the men are paid off. The total amount of the payroll is $125.60.

Fill out Voucher No. 9.

In making the entry in the Vouchers Payable Register, charge $15.00 to Materials Expense; this amount is the total of wages paid to draymen and other workmen who hauled and handled materials. Charge $10.00 to General Expense; this is the salary of the janitor. Charge the rest to Manufacturing Labor.

Note. The first two items are said to be "non-productive" labor, as they represent work done which produced nothing. The Manufacturing Labor account contains items of productive labor. The first item, $15.00, was charged to Materials Expense, because it virtually increased the cost of materials. The three items can be entered on two lines of the Vouchers Payable Register.

Make the entry in the Cash Book.

May 4. Paid Edna Wilson, the stenographer, her salary for four days, $6.67. Make out a voucher for this. Enter in the Vouchers Payable Register, charging General Expense. Make the Cash Book entry.

May 6. Paid James Quinn, 191 Randolph St., cash for 1640 lbs. steel castings at 4¢, less 2% for cash.

Fill out Voucher No. 11 for the gross amount of the bill, detach, and file it.

Make the proper record in the Vouchers Payable Register, charging Materials. Write "Cash less 2%" in the Terms column and in the How Paid column.

Make the entry in the Cash Book. Enter the net amount in the General column and the discount in the Cash Discount Cr. column.

May 6. Bought of Mears & Bates, 2650 Wells St., on account, 20 M ft. hickory lumber at $35.00. Terms, Note 60 days or 2% off for cash in ten days. We will take advantage of the discount.

Fill out Voucher No. 12. Let it remain attached to its stub for the present.

Make the entry in the Vouchers Payable Register, charging Materials.

May 6. Shipped today via C. B. & Q. R. R. to Warren & Co., Muscatine, Iowa, 14 #E73 walking gang plows, at $15.00; 45 Climax plows, at $9.00; and 5 disc harrow blades, at 50¢. Terms 2/10 n/30. Freight charges were paid by them.

May 6. Bought of Bishop & Warner, 124 Clark St., for cash, 4 kegs 8d nails at $4.50; 2 kegs clinch nails at $7.00. Terms 2% off for cash.

Fill out Voucher No. 13.

Record the purchase in the Vouchers Payable Register, charging Materials.

Make the entry in the Cash Book. The net amount is entered in the General column, and the amount of the discount in the Cash Discount Cr. column.

May 7. Received from T. D. Philips, Rock Island, Ill., on account, 12 M ft. ash lumber, clear, at $40.00. His bill is dated May 5. Terms 2/20 n/40. The lumber was sold F.O.B. Rock Island.

Make out Voucher No. 14, leaving it attached to the stub. In making the record in the Vouchers Payable Register, charge Materials.

May 7. The lumber from Rock Island was shipped to us via the C. R. I. & P R. R., freight charges collect. We paid the freight bill, which amounted to $14.50. Fill out a voucher for this, and make an entry in the Vouchers Payable Register, charging In-Freight. Make the Cash Book entry.

May 7. Sold on account to F. E. Durrell, Quincy, Ill., 50 No. E29 chilled plows, at $3.50; and 12 No. 60 spring lift gang plows, at $42.50; less trade discount of 20% on entire bill. Terms 2/10 n/60. Shipped freight charges collect.

May 7. For convenience in paying small items it has been decided to entrust you with $20.00 which you may use to pay certain small items for which it is not possible or convenient to issue a voucher at the time of payment. You are to keep a correct record of these petty items in the Petty Cash Book, the form of which is here shown.

PETTY CASH BOOK

Date		Voucher No.	Page	Amount		Date		Paid for	Sundry Accounts Dr.			Materials Dr.		Mfg. Labor Dr.	
									Account	L.F.	Amount				
19—						19—									
May	7	16	1	20		May	8	Postage	Genl Exp.		2				
							11	1 gal. Varnish		✓			65		
							15	H. Wilke		✓				3	13
							18	Sundries	Genl Exp.		7	65			
							18		Materials			65		3	13
							18		Mfg. labor		3	13			
							18	*	Balance	✓	6	57			
				20							20				
May	20	Bal.	✓	6	57										

*This line and all rulings to be in red ink.

Fill out a voucher in the usual form for $20.00 with the explanation "For Petty Cash," and secure the president's signature. Enter the voucher in the Vouchers Pay-

able Register, charging Petty Cash. Make an entry on the credit side of the Cash Book in the usual way. Post the item from the Vouchers Payable Register to the Petty Cash book at once. (This makes the Petty Cash book a part of your double entry system. Its balance must be included in the trial balance.)

May 7. The factory superintendent hands in an itemized report on finished implements the estimated cost of which is $3008.50. Make a journal entry debiting Implements and crediting Production, and for a full understanding of the entry read the following paragraphs on The Production Account and work out the problem given herewith.

The Production Account.

The purpose of the Production account is to show costs of manufacture, and returns, estimated at cost, on the finished articles as they are turned into the storeroom.

The Production account is debited with the net results of the Materials account, the Materials Expense account, the Manufacturing Labor account, and other manufacturing cost accounts, which are closed into it. It is credited with the value of the finished product estimated at a standard cost figure.

Since the debit side of the account exhibits costs and the credit side exhibits the finished product valued at cost, it follows that if the costs could be computed with exactness and the value of the finished product estimated to the cent, the Production account would close without a balance. But exactness is not possible in either of these matters, hence the Production account always exhibits a slight discrepancy between the debit and credit sides at the end of the month. This discrepancy is closed into the Merchandise account.

Prices of materials fluctuate, and it is not possible to ascertain the exact cost of the identical materials used in manufacturing a given article. The adoption of a standard cost figure for that article is the only satisfactory solution of the problem. Further, this plan furnishes an opportunity for the factory to demonstrate its ability to reduce costs, or to manufacture for less than the standard estimated cost price.

Some houses prefer to estimate costs at a somewhat higher figure than actual cost so that the sale force will not know exactly what the cost is. If the finished product is billed to the sales department at a safe figure, then the house would not lose even if the sales force should cut down prices to what it considered the lowest limit.

The Production account is an intermediate account, coming between the individual cost accounts and the Mdse account. It summarizes the costs. The separate cost accounts could of course all be closed directly into the Mdse account, no Production account being used, but this would make the Mdse account very cumbersome. The use of the Production account relieves the Mdse account of a great number of entries. (In the following problem only three cost accounts, viz., Materials, Materials Expense and Manufacturing Labor, are closed into the Production account. These are sufficient for purposes of illustration, yet there might be dozens of such accounts.)

Work the following problem on loose sheets, using one sheet of journal paper and one sheet of ledger paper. Allow four ledger accounts to the page.

*Problem**. July 1, 19—. Kimball & Co. have on hand $50,000.00 in Cash, Pianos (Mdse) valued at $100000.00, Materials valued at $20000.00, and owe workmen for unpaid wages $2500.00. Open accounts with Cash, Pianos, Materials, and Manufacturing Labor, showing the above inventories and the cash balance. Open Kimball & Co.'s account.

July 10. Paid cash for materials, $10000.00.

July 12. The foreman of the factory turned over to the superintendent of the stock-

*Optional.

room 125 finished pianos, at an estimated cost of $95.37 each. Open a Production account. Debit Pianos and credit Production.

July 15. Paid workmen for labor, $5000.00 in cash. $500.00 of this is chargeable to Materials Expense. Open a ledger account under the heading "Materials Expense."

July 18. In-Freight bills amounting to $95.60 were paid in cash. Charge to In-Freight.

July 20. 91 more pianos have been finished and turned over to the stockroom, at the same estimated cost as before.

July 31. Sales for month, $30000 cash.

July 31. Inventory of Materials on hand, $14000.00. Amount due workmen for labor, $2000.00, $400.00 of which is chargeable to Materials Expense. Close Materials, Materials Expense, and Manufacturing Labor into Production.

July 31. Note that the Production account does not evenly balance. Theoretically, it should balance exactly, as its debit side is presumed to show exact cost of manufacture, and its credit side is presumed to show the exact output at cost. But for the reasons above enumerated there is a slight discrepancy which shows as a gain. Close this to the Pianos account.

July 31. Inventory of pianos on hand, $104000.00. Open a Loss & Gain account and close the Pianos account into it. Close the In-Freight account.

Close Loss & Gain.

QUESTIONS:

What was the amount of net assets on July 1?
What was the amount of net assets on July 31?
Was there an increase of net assets during July?
Does this increase agree with the net gain for July?

Transactions—Continued

May 8. Received an order from J. C. Houston, Peoria, Ill., for 8 No. E30 corn planters, at $38.50, less 25%; and 20 sulky gang plows at $45.00. Billed the goods to him at 2/10 or note 30 days, shipping via C. & A. Freight charges, paid by us, $23.50.

Make out a voucher for the freight; detach and file it. Charge Out-Freight.

May 8. Bought of Robert Law, on account, 19 tons Hocking Lump coal at $5.00. The bill is payable June 1. Charge Manufacturing Expense.

May 8. Paid from the Petty Cash fund for 100 2¢ postage stamps. This is chargeable to General Expense.

No voucher is required for this transaction. Make an entry on the credit side of the Petty Cash Book, debiting General Expense. Write the amount and the name of the account to be debited in the Sundry Accounts Dr. columns. It is to be posted.

May 9. Bought of D. C. Wade 12½ M ft. oak lumber at $80.00. His invoice was dated May 7. Terms 2/10 n/30.

May 10. Sold to G. W. Hurd, Racine, Wis., 16 No. 237 corn planters, at $38.00 less 25%; and 20 shovel plows at $2.62½. Terms 2/10 n/30. Trade discount of 20% on entire bill. Freight expense to be borne by the purchaser.

May 10. Filled an order for 30 No. E31 corn planters, at $39.50, less 16⅔%; and 9 double harrows, at $10.00, for S. F. Lancey, St. Paul, Minn. Trade discount of 10% on entire bill. Terms 2/10.

May 11. Acting upon authority of the directors, we have today installed a new Corliss Engine and additional machinery, at a total cost of $12460.00, for which we have paid the International Machinery Co., Detroit, Mich., in cash. Make out a voucher. Make an entry in the Vouchers Payable Register, charging Tools & Machinery. Make a Cash Book entry.

Note.—In case of a special purchase as above (and as in the purchase on May 1 of Critchell & Whitney) when the purchase is large and the items numerous, it is not practicable to list the items of the purchase on the voucher. Such large transactions are often evidenced by a special written contract (or if real estate, by a deed) and a reference to this contract or deed is all that is necessary on the voucher.

May 11. The superintendent of the factory finds that the supply of a certain kind of varnish is exhausted, and that he needs some at once. He buys a gallon can of it at a local establishment for 65¢ which is paid from the petty cash fund. (Charge Materials.)

Enter the amount in the Materials column of the Petty Cash Book. Place a check mark in the L. F. column, as the Materials column will be posted in total.

May 11. Cash sales are reported today amounting to $935.60. Enter in the Cash Book and in the Sales Book. Place a check mark in the L. F. column in each book.

May 11. This week's payroll calls for $125.60 for the regular force and $43.50 for piece-work done by extra help. This is distributed as follows: Materials Expense, $20.00; General Expense, $10.00; Manufacturing Labor, the rest.

May 13. Inspect your Vouchers Payable Register. You will find two bills due today (One of these is marked as due May 12, but as the 12th was Sunday the bill may be paid today). It will be observed that both of these amounts are due to firms in the city. Had either of them been due to a firm outside of the city, it would have been necessary to remit a day or two in advance, so that the money might arrive in time to entitle us to the discount. Detach the two vouchers and pay them, entering the date of payment on the voucher stub. Make proper entries in the Cash Book. Mark the vouchers "paid" in the Vouchers Payable Register. Do not forget to take the discounts.

May 13. Received cash from J. C. Houston for the bill of goods sold him May 3, less 2% cash discount.

May 13. The directors have issued a call for a second installment of 25% of the stock subscription. Prepare Installment List No. 2.

May 13. All stockholders appear today with cash for the amount of their installments. Issue Installment Receipts to them. Remember that the vice-President must sign the receipts issued to J. E. Colby and C. J. Barber. Post from the stubs of the receipts to the credit of the several stockholders in the Installment Ledger.

Make the entry in the Cash Book, crediting Subscription.

May 14. While the corporation was being organized Mr. J. E. Colby advanced cash for the fees paid to the State and the County, and to A. R. Shannon, corporation attorney, for advice. The total amount paid out by Mr. Colby was $250.00. The directors ordered that he be reimbursed. Make out a voucher and pay him in cash. Charge General Expense.

May 15. The superintendent of the factory summarily discharged Herman Wilke. Wilke's salary for 2½ days, $3.13, was paid out of the petty cash fund and charged to Manufacturing Labor. Enter the amount in the special column and check in the L. F. column.

May 15. Cash sales were reported amounting to $420.00.

May 16. Warren & Co. of Muscatine, Iowa, remitted Chicago exchange in payment of our bill against them for implements purchased May 6, less 2% cash discount.

May 16. Inspect your Vouchers Payable Register. If there is a bill due today, pay it, taking any discount to which we are entitled.

May 17. Paid D. C. Wade the net amount due him (See Vouchers Payable Register).

May 17. Received cash from F. E. Durrell, Quincy, Ill., for bill of May 7, less discount.

May 18. Bought sundry small items of stationery and supplies for the office, $3.65; and stamps, $4.00; which amounts are charged to General Expense through the Petty Cash Book.

May 18. J. C. Houston sent us his non-interest-bearing 60-day note dated May 8 for the full amount of our bill against him of May 8. We discounted this note at the bank at 7%.

Credit Houston through the Journal.

Make the second entry also in the Journal, debiting Cash and Interest & Discount, and crediting Notes Receivable. Post the cash item to the Cash Book immediately, entering folios in both books.

Note. The reason the last transaction was not entered in the Cash Book direct is that the discount item, not being a cash discount item, could not be entered in the Cash Discount column; nor could it be entered in the General column on the credit side, from which it might have been posted to the debit of Interest & Discount, because the total of the General column is to be posted to the debit of Vouchers Payable.

May 18. J. L. Cashel, of LaCrosse, Wis., remitted $185.22 in payment of his bill of May 3 less 2%, accompanied by a letter explaining that he was out of town on May 13, the due date, and expressing the hope that we would overlook the delay. We answered his letter courteously refusing to allow him the discount. We returned his check, as the terms of the sale allowed until June 2 in which to pay the bill at the net price.

May 18. The payroll for the week showed a total of $165.20, distributed as follows: Materials Expense, $20.00; General Expense, $12.50; Manufacturing Labor, the rest.

May 18. The stenographer's salary for the week, $12.50, was paid, and charged to General Expense.

May 18. The superintendent of the factory reported that implements to the cost value of $2169.50 had been delivered to the sales department.

At this point you will post all transactions up to date and take a trial balance. Perform the work in the following order.

Post the journal.

Post the items of the Sales Book to the Sales Ledger, using the explanation "Implements." Do not post the total, but remember to include it in the trial balance.

Post the items on the debit of the Cash Book to the credit of the various accounts named. Post the footings of the Cash Discount Dr. column and the Cash Discount Cr. column to the accounts named on their respective headings. Do not add these totals into the General columns. Post the totals of both credit columns to the debit of Vouchers Payable. Remember to include the balance of cash in the trial balance.

Post the total of the Vouchers Payable Register to the credit of Vouchers Payable, and post the items in the Sundries column to the debit of the various accounts named,

using the Explanation "Voucher No. —." Post the totals of the Materials and Manufacturing Labor columns to the debit of those accounts.

Note. Much labor may be saved by ruling up personal accounts wherever they balance.

Note. At this point you may test the accuracy of the Vouchers Payable Register by ascertaining whether the total of outstanding bills as shown therein agrees with the balance of the Vouchers Payable account as it now stands in the ledger.

Post the items in the Sundries column on the credit side of the Petty Cash Book to the debit of the several accounts named. Post the totals of the Materials and Manufacturing Labor columns to the debit of those accounts. The items on the debit side of the Petty Cash Book are all already post-checked. Close the Petty Cash Book. Do not forget to include petty cash in the trial balance.

Make a list of Installment Ledger balances and see if its total agrees with the balance of its controlling account, Subscription. Take a trial balance.

Transactions for May, Continued.

May 20. Sold to Wilkins & Freeman, Paxton, Ill., 9 No. 47 spring tooth harrows, at $12.50; 12 No. 043 peg tooth harrows, at $9.50; and 7 No. B26 riding cultivators at $25.00. Terms 2/10 n/30. We paid the freight on this shipment, $16.25. Shipped via Ill. Cent. R. R.

May 20. Received checks from G. W. Hurd and S. F. Lancey for the net amounts due us for implements sold them on May 10.

May 20. Bought pens, ink, and other office supplies, and paid for them from the petty cash fund, $2.25.

May 21. Shipped via the C. & A. R. R. to the Dalton Implement Co., Jacksonville, Ill., June 1 dating, terms 2/10 n/30, 8 No. 278 potato diggers, $18.50; 4 No. 049 disc harrows, at $23.75; 15 No. 01 cultivators, at $17.00. Less 10% on entire bill. We paid the freight charges in advance for them, $16.65, and charged them with the amount.

May 21. Inserted want ads in three daily papers, advertising for workmen. Paid $2.70 for these ads, from the petty cash fund. Charge Advertising.

May 21. The petty cash fund is now rather low. Make out a voucher and secure $20.00 more for this fund. Post at once from the Vouchers Payable Register to the Petty Cash Book.

May 22. Received from the Southern Pine Lumber Co., Rock Island, Ill., a bill for 2400 ft. No. 2 white pine, rough, at $20.25, 4800 ft. No. 1 do., at $24.00, and 2000 ft. hickory, at $35.00. (Price varies on last item only.) The bill was dated May 18, terms "2/10 n/60, freight charges allowed," and we were advised that the lumber was shipped on May 18 via the C. M. & St. P. Ry. It had not yet arrived, but the entry was made at this time nevertheless.

May 23. Sold to Warren & Co., Muscatine, Iowa, 10 Corn King disc harrows, at $21.75; and 13 No. 03 cultivators, at $12.50. Terms 2/10 1/20 n/30. Warren & Co. to pay the freight charges. Shipped via the C. B. & Q. R. R.

May 23. Bought postage stamps, $2.00, for general use, paying from petty cash fund.

May 23. Sent out 10000 circulars today under one cent postage. Paid cash for the stamps. Bought the envelopes on account of Homer E. Wadsworth, 290 Dearborn Ave., at $1.85 per M. W. P. Dunn & Co., 373 LaSalle St., charged us on account $26.50 for paper and printing. Make out separate vouchers for the three bills. Charge Advertising in all three cases.

May 24. Received the lumber from Rock Island today. Paid the C. M. & St. P. Ry. freight agent $10.50 for freight, which amount we will deduct when we pay the bill for the lumber.

Make out a voucher for this payment. Enter the transaction in the Vouchers Payable Register, charging the $10.50 to the Southern Pine Lumber Co. in the General Ledger. Write in the How Paid column opposite Voucher No. 28, in the Vouchers Payable Register, the words "Deduct $10.50 freight."

Voucher No. 28, which shows the amount due the Southern Pine Lumber Co. on the bill, is still attached to its stub. Deduct $10.50 from the amount shown on the voucher, with a proper explanation dated May 24. Make the same deduction on the stub of the voucher.

Make an entry in the Cash Book.

May 24. Sold to G. W. Hurd 50 No. 2765 one-horse seeders, at $15.60, less 20%. Terms 2/10 n/Oct. 1. Goods were shipped charges collect.

May 25. Sold to S. F. Lancey 4 land rollers, at $22.50; 12 Zigzag 14-tooth cultivators, at $18.75; and 10 dozen rolls binder twine, at $2.75 per doz. Terms, 2/10 n/30. Shipped via C. M. & St. P. R. R. Paid freight charges, $19.50.

May 25. The factory superintendent employed a special workman to assist on a rush order. Paid this workman for a day and a half at a dollar and a half a day, from the petty cash fund. Charge Manufacturing Labor. Twenty-five cents worth of putty was also paid for from the petty cash fund. Charge Materials.

May 25. Paid T. D. Phillips, Rock Island, Ill., the net amount due him. (See Vouchers Payable Register.)

May 25. The directors have issued a call for a final installment of 25% on the capital stock. Prepare an Installment List. J. E. Colby, C. J. Barber, and R. E. McCarthy respond at once with a cash payment. Issue installment receipts to them. Post from the receipt stubs to the Installment Ledger. Close the three Installment Ledger accounts which are now fully paid. Make the entry in the Cash Book.

May 25. The payroll for the week amounted to $179.60, distributed as follows: General Expense, $10.00; Materials Expense $15.00; Manufacturing Labor, the rest.

May 25. Paid the office stenographer's salary as on previous Saturdays.

May 27. Sold to E. A. Robinson & Bro., Champaign, Ill., 8 Self-Dump hay rakes, at $20.50; 10 No. B290 one-horse mowers, at $38.25; and 4 Junior hay stackers, at $41.50. Shipped via Illinois Central R. R. Terms 5/10 n/Oct. 1, freight charges equalized with nearest shipping point.

Note. The "nearest shipping point" is in this case Peoria. Robinson & Bro. can buy any implement manufactured, at Peoria. We must not only meet Peoria prices, but must compete with Peoria freight rates as well. We do this by agreeing to pay all freight charges in excess of what the freight from Peoria would have been. This is called "equalizing freight with Peoria."

May 27. H. M. Miller and W. L. Sampson remit cash for the final installment on their stock and interest for two days.

May 27. Bought of The Lincoln Foundry Co., Lincoln, Ill., 19875# steel castings at 4¢; and 5857# bar steel at 3½¢. Terms, net 30 days. Freight charges paid by them.

May 27. The factory superintendent reports finished implements turned over to the sales department amounting to $2675.35.

May 28. Sold to S. F. Lancey, St. Paul, Minn., 12 No. 2 hay tedders, at $33.75; 9 side-sweep hay rakes, at $15.50; and 1 gross rolls binder twine, at $2.75 per doz. Terms June 15 dating, 5/10 n/Oct. 1. Goods were shipped F.O.B.Chicago.

May 28. Remitted to the Southern Pine Lumber Co. the net amount due them after deducting for freight and discount.

Enter in the General column on the credit side of the Cash Book an amount equal to the sum of the net cash payment and the freight charges, so that what is entered in the Cash Discount Cr. column and what is entered in the General column will equal the amount of Voucher No. 28, as entered in the Vouchers Payable Cr. column of the Vouchers Payable Register on May 22. Then make a *contra* entry on the debit side of the Cash Book in the General column, crediting the Southern Pine Lumber Co. for the amount deducted for freight. This operates as a reduction of the amount of cash paid out, and when posted to the ledger will offset the debit of the Southern Pine Lumber Co. posted from the Vouchers Payable Register (Voucher No. 32). Freight must be deducted before discount is figured.

Note. It is the custom in the lumber business to allow a discount only on the net amount after freight allowances are deducted. This custom does not exist in the implement business, and we allow our customers to discount the entire bill, deducting amounts advanced for freight after the discount has been taken on the entire bill.

May 28. Received from A. F. Harvey a check for the amount due on his final installment and interest. Issue an Installment Receipt

May 28. Messrs. Colby, Miller, and Barber surrender their installment receipts, endorsed in blank, and request certificates of stock in exchange therefor. Write across the face of each installment receipt in red ink the words "Surrendered May 28 in part exchange for Stock Certificate No. —," and have this cancellation signed by the secretary. Paste the cancelled receipts back on the original stubs and write the same cancellation on the stubs that was written on the receipts. Fill out Certificates of Stock and the stubs as shown in the form on page 9, detach them, and deliver them to the proper parties. Be sure to have the stockholders acknowledge receipt of the certificates by placing their signatures in the proper space on the certificate stub.

Note. Your teacher will instruct you as to who will affix these signatures.

Note that the transfer record is not filled out entirely in the form on page 9. These are only filled when new stock is issued in transfer for old stock.

Post from the stubs of the certificate book to the credit of the subscribers in the Stock Ledger. The form of a stock ledger account is shown below. Before posting, write the headings as shown in the form. Note that one account occupies but half the width of a page.

H. M. MILLER

Date		Debits		Credits		Credit Bal.
		Cert. No.	No. Shares	Cert. No.	No. Shares	
19						
May	28			2	200	20000
June	27	12	35			16500
	27	13	165	13	165	16500

Note. The plan of posting direct from the stubs of the stock certificates is satisfactory for a small corporation with few stockholders, and the Acme Manufacturing Co. keeps its records in this way. A corporation having many shareholders and frequent transfers of stock, however, might keep a Stock Register similar in form and use to the form shown at the top of page 44.

STOCK REGISTER

C'rt. No.	Date Issued	To Whom Issued	Address	Old C'rt. No.	No. Shares	L.F.	Amount	Transferred to		
								Cert. No.	L.F.	Amount
1	Jan. 1	G. W. Brown	Peoria, Ill.		200	1	20000			
2	Jan. 1	R. H. Price	Aurora, Ill.		150	1	15000	17	1	15000
3	Jan. 1	T. R. Hoffman	Hammond, Ind.		100	1	10000	21 & 22	1	10000
17	Feb. 15	E. T. Buffin	Austin, Ill.	2	150	4	15000			
21	Mar. 10	Jas. T. Perry	Gary, Ind.	3	40	6	4000			
22	Mar. 10	T. R. Hoffman	Hammond, Ind.	3	60	1	6000			

Frequently a more complex form is used than that shown above. It is sometimes called a "transfer register."

Explanation of Above Form. The first three entries are of original issues of stock. At the time of issuing the transfer columns were left blank. Posting to the Stock Ledger was done from this register instead of from the certificate stubs.

On Feb. 15 R. H. Price sold his 150 shares to E. T. Buffin. The transfer columns were filled out opposite certificate No. 2, and $15000.00 posted therefrom to the debit of R. H. Price's account in the Stock Ledger. Certificate No. 17 was issued to E. T. Buffin in exchange for old certificate No. 2.

On Mar. 10 T. R. Hoffman sold 40 shares to Jas. T. Perry. Old certificate No. 3 was cancelled and the transfer columns filled in in the register. Two new certificates were issued, No. 21 to Jas. T. Perry for 40 shares, and No. 22 to T. R. Hoffman for 60 shares.

May 28. Another workman, Henry Clark, was summarily discharged today and paid off from the petty cash fund, $3.75.

May 29. Cash sales were reported today amounting to $261.75.

May 29. Sold to Marc Lombard & Co., Winona, Minn., 9 land rollers, at $20.00; 8 No. 3 gang plows at $38.75; and 6 dozen rolls binder twine, at $2.75. Terms, 2/10 n/Oct. 1, 5% trade discount on entire bill. The buyers to bear the freight expense.

May 30. Paid 35¢ from the petty cash fund for library paste.

May 30. Messrs. McCarthy, Sampson and Harvey surrendered their installment receipts, properly endorsed, in exchange for their stock certificates. Proceed as on May 28

All the capital stock has now been issued. See whether the total of credits in the Stock Ledger equals the amount of capital stock as per the General Ledger.

May 30. Received cash of Wilkins & Freeman for our bill against them dated May 20

May 31. Mailed a check to Robert Law for two bills for coal this month.

May 31. Paid office salaries for the month as follows: J. E. Colby, President, $200.00; C. J. Barber, Secy. & Treas., $100.00; Yourself, Bookkeeper, $75.00; A. C. Owings, Salesman, $90.00. Charge all these salaries to General Expense. Issue a separate voucher for each.

Post the journal. Post the unposted items in the Sales Book to the Sales Ledger, and post the total for May to the Sales account in the General Ledger.

Post the items on the debit side of the Cash Book to the credit of the proper accounts. In posting to the credit of sales accounts, post both the discount and the net payment,

entering them on the same line with the bill which they cover. Post the total of the Cash Discount Dr. column to the debit of the account in the ledger under that title. Post the total of the Cash Discount Cr. column to the credit of Cash Discount Cr. and to the debit of Vouchers Payable. Post the total of the General column to the debit of Vouchers Payable. Close the Cash Book, remembering not to add the discount columns into the general columns.

Post to the debit of sundry accounts from the Vouchers Payable Register. Post the totals of the Materials column and the Manufacturing Labor column to the debit of those accounts Post the total of the Vouchers Payable Cr. column to the credit of the Vouchers Payable account. Does the sum of unpaid vouchers equal the balance of the Vouchers Payable account?

Post to the debit of accounts named in the Sundry column of the Petty Cash Book. Post the footings of the Materials and Manufacturing Labor columns.

Rule up the Subscription account in the General Ledger, as it now balances.

Take a trial balance.

Did you remember to include cash and petty cash in the trial balance? After your trial balance has been approved, make two statements, following the forms shown on pages 46 and 47. Study the forms now, and study the following explanations:

EXPLANATION OF THE LOSS AND GAIN STATEMENT.

Observe that the gains and losses are highly classified. The purpose of this classification is to group under main accounts the subordinate accounts which will eventually close into them. The result is that the statement shows a few important results rather than a great number of minor results. The directors can examine this statement easily and intelligently without being confused by a mass of detail. The detailed information is all there, however, shown in the analysis of the main heads, and may be examined by the directors if they are so disposed.

To illustrate: The Manufacturing Labor, Manufacturing Expense, Materials, and Materials Expense are all subordinate to Production. They are shown as subordinate to Production, the four costs being separately ascertained and then added together to show the total cost of production. This is better than a plan which would show these four as separate items of loss.

Observe that Cash Discount Dr. (and its inventory) and Out-Freight (and its inventory) are shown as deductions from Sales rather than as separate losses.

EXPLANATION OF STATEMENT OF RESOURCES AND LIABILITIES.

In this statement the resources and liabilities are shown to be equal. This is accomplished by including the Capital Stock and the Gain as liabilities, as these represent amounts due the investors.

"Anticipated cash discounts" and "Anticipated freight allowance" represent amounts which customers will deduct in paying their bills. The cash discount is computed accurately, thus: J. L. Cashel is entitled to no discount. Warren & Co., G. W. Hurd and Marc Lombard & Co. are entitled to 2%. The Dalton Implement Co. is entitled to 2% on all of its bill, but not on the charge against them for freight advanced. E. A. Robinson & Bro. are entitled to 5%. S. F. Lancey is entitled to 2% on one of his bills and 5% on the other. The anticipated freight allowance is an estimate of the amount due Robinson & Bro. as per agreement with them May 27. The anticipated cash discount and anticipated freight allowance are shown in the statement as deductions from Accounts Receivable, rather than as liabilities. Had there been any anticipated cash discounts and anticipated freight allowances in our favor, these would have been treated as deductions from Vouchers Payable, not as resources.

LOSS & GAIN STATEMENT, MAY 31, 19—.

		Gains		
Interest & Discount—				
Earnings			**.**	
Invty May 31			**.**	
Invty (Treasurer's Report)			112.50	
Less			***.**	
Losses	**.**			
Invty May 1	**.		**.	***.**
Implements—				
Sales			*****.**	
Less				
Cash Discount Dr.		**.**		
Anticipated Cash Discount		***.**		
Out-Freight		**.**		
Anticipated Out-Frt. Allowance		**.**	***.	
Net Sales			****.**	
Cost—				
On hand May 1		****.**		
Charged for production		****.**		
		*****.**		
Deduct Invty May 31		****.**		
Net cost of Impl. sold			****.**	****.**
Production—				
Manufacturing Labor		***.**		
Due workmen		***.**		
Less		***.**		
Labor on unfinished Imp		***.**	***. **	
Manufacturing Expense		***.		
Less coal on hand		**.**	***.**	
Materials		****.**		
In-Freight added		**.**		
Less		****.**		
Cash Discount Cr.	**.**			
Invty Raw Materials	****.**			
Invty Unfinished Materials	***.**	****.**	****.**	
Materials Expense		**.**		
Due workmen		**.**	**.**	
Total cost of production			****.**	
Already chgd. off to Implements			****.**	
Total cost of production, as above			****.	**. ** ****.**
		Losses		
Depreciation on Factory & Site				**.**
Depreciation on Tools & Machinery				***.**
Advertising				***.**
General Expense			***.**	
Add Salary due Edna Wilson			**.**	
Wages due workmen			*.**	***.** ****.**
Net Gain				****.**

RESOURCES & LIABILITIES, MAY 31, 19—.

Resources

Cash—				
Per Cash Book		***** **		
Per Petty Cash Book		** **	***** **	
Notes Receivable—				
G. E. Baker—Apr. 1		****		
M. L. Rankin—Mar. 11		****	****	
Accounts Receivable—				
J. L. Cashel	*** **			
Warren & Co	***			
G. W. Hurd	***			
S. F. Lancey	***			
Dalton Implement Co	*** **			
E. A. Robinson & Bro	*** **			
Marc Lombard & Co	*** **	**** **		
Less—				
Anticipated Cash Discounts	*** **			
Anticipated freight allowance	17.50	*** **	**** **	
Factory & Site		*****		
Less ½% depreciation		** **	***** **	
Tools & Machinery		*****		
Less ½% depreciation		*** **	***** **	
Implements—Inventoried at			4567.50	
Coal on hand—Inventoried at			50.75	
Materials—Inventoried at			1247.88	
Unfinished Implements—				
Labor estimated at		162.13		
Materials estimated at		262.74	*** **	
Interest—				
Accrued on Baker's note—**ds		** **		
Accrued on Rankin's note—**ds		** **		
Reported by Treas. as accrued on funds in bank		112.50	*** **	
				****** **

Liabilities

Salary due Edna Wilson—5 days		** **	
Wages due workmen on this week's payroll—			
Gen'l Expense	8.33		
Materials Expense	12.50		
Manufacturing Labor	114.50	*** **	
Vouchers Payable—			
Critchell & Whitney	***** **		
Homer E. Wadsworth	** **		
W. P. Dunn & Co	** **		
The Lincoln Foundry Co	****	***** **	
Capital Stock		******	
Gains for May (as per L. & G. Stm't)		**** **	****** **

Salary due Edna Wilson is a liability inventory on the General Expense account.

In the outline shown for this statement all inventories are given in plain figures except those you have been told how to estimate for yourself.

After reading the above explanations and studying the forms carefully, you should be able to understand the two statements. Remember that all inventories used in making the Resource and Liability Statement must also appear on the Loss and Gain Statement. If the inventory is an asset or decreases a liability, it must appear in the Loss and Gain Statement as either an increase of some gain item or a diminution of some loss item. If the inventory is a liability or decreases an asset, then it must appear in the Loss and Gain Statement as an increase of some loss item or a decrease of some gain item.

Reserves from Profits.

The directors, after they have examined your statements as to the condition and progress of the business, have ordered the following reservations: Reserve for Depreciation, $450.00; Reserve for Surplus, $500.00. They also declare a dividend of 2% to be paid in cash on June 5.

Referring to your Loss and Gain Statement, proceed to close the loss or gain accounts. Bring down all inventories.

1. Close In-Freight and Cash Discount Cr. into Materials.
2. Close Materials, Materials Expense, Manufacturing Labor, and Manufacturing Expense into Production.
3. Close Out-Freight and Cash Discount Dr. into Sales, to which account the sales total has already been posted.
4. The estimated cost of production has already been charged off from the Production account to the Implements account through three journal entries. The actual cost of production, however, is seen to be less than the estimated cost. A saving in the estimated cost of manufacture has been effected. This saving shows in the Loss and Gain Statement as a gain. Close it into the Implements account. Close Sales to Implements.
5. Close Implements, Advertising, Interest & Discount, and General Expense into Loss & Gain. In closing the Implements account, the gain will not be the same as that shown by the Loss and Gain Statement, because a gain of $**.** has been closed from Production to Implements.
6. Close the Loss & Gain account into the Undivided Profits account. The gain closed into Undivided Profits will not agree with the gain shown by the Loss and Gain Statement, as your Loss and Gain Statement includes $***.** depreciation, which is written directly off of the Factory & Site and Tools & Machinery accounts without being carried through the Loss & Gain account.

Make the reservations ordered by the directors by crediting each of the reserve accounts and Dividend No. 1 and debiting the Undivided Profits account. This may be done directly in the ledger, by means of three closing entries, or through the journal, the following entry being used:

Undivided Profits	$2950.00.	
Reserve for Depreciation		$ 450.00
Reserve for Surplus		500.00
Dividend No. 1		2000.00

If the journal entry is used for this transaction, post it at once.

Note. The creation of these reserves has not made the corporation richer or poorer. But the fact that the reserves exist materially strengthens the standing of the company with its stockholders and with the general public. The creditors know that $450.00 has been set aside to guard against deterioration in the value of the company's property, to which they must ultimately look for satisfaction of claims against the corporation in case of insolvency. Everyone looks with approval upon a large and growing Surplus

reserve, which strengthens the financial standing of the company, safeguards the interest of stockholder and creditor, and is an indication of wise and conservative management.

Make a journal entry debiting Reserve for Depreciation and crediting Factory & Site and Tools & Machinery for the estimated depreciation. Post this entry at once. Close the Factory & Site and Tools & Machinery accounts.

Close the Undivided Profits account with a balance, which you will bring down.

Take a Balance of Balances. It should agree in every detail with the Statement of Resources & Liabilities, except that it will show the Gain distributed to four accounts, viz: Reserve for Depreciation, Reserve for Surplus, Dividend No. 1, and Undivided Profits.

TRANSACTIONS FOR JUNE

In the following transactions, full instruction is given for procedure in cases presenting new features to the student. For most of the transactions of this month, however, parallel or similar transactions can be found in the work for May, and these will not be again explained. The student must rely upon his judgment and his familiarity with the work thus far, for charging the various expense and cost accounts. He will not be told what account to charge in transactions of a kind with which he should be familiar.

June 1, 19—. Insured with the Ætna Fire Insurance Company as follows: $21375.00 on tools and machinery, at $1.07 per hundred for 3 years; $12375.00 on factory and site, at $1.15 for 3 years; and a three year policy for $4500.00 on implements and materials (including unfinished implements), at $1.35 per hundred. Paid the premiums in cash.

June 1. Sold Cameron & Cameron, 440 Lake St., terms 5/30 n/Oct. 1, 6 B290 one-horse mowers, at $38.25; and 12 self-dump hay rakes, at $20.50.

June 1. The payroll for the week amounted to $162.50, divided as follows; General Expense, $12.50; Materials Expense, $15.00; Manufacturing Labor, the rest.

June 1. Paid the stenographer's salary as usual.

June 3. Paid vouchers No. 30 and 31.

June 3. Drew at sight on J. L. Cashel, through the First National Bank of LaCrosse, Wis., for the amount due from him. The bank returned the amount less 40¢ for collection charges. Enter the transaction in the Journal, posting the cash item to the Cash Book at once and checking in both books.

June 3. Received from Warren & Co., of Muscatine, Iowa, and from G. W. Hurd, of Racine, Wis., cash for the amounts due from them. The bill against Warren & Co. was due June 2, but that day was Sunday.

June 4. Remitted to trade journals as follows, for advertising: The Implements Journal, 340 Wabash Ave., City, $50.00; The Agriculturist, Detroit, Mich., $45.00. Two vouchers.

June 4. Sold to W. F. McKinney, 6321 Cottage Grove Ave., 8 Self-Dump hay rakes, at $20.50; 6 Junior hay stackers, at $45.00, less 10%. Terms, 5/30, n/Oct. 1.

June 4. Received of S. F. Lancey the net amount due from him today.

June 5. Paid Dividend No. 1 in cash. Prepare Dividend List No. 1 in the following form:

DIVIDEND LIST NO. 1, JUNE 5, 19—.

Acme Manufacturing Company, 2%.

No. of Cert.	Shareholders	No. of Shares	Par Value of Shares	Amt. of Div.	When Paid	Voucher No.
1	J. E. Colby	200	$20000	$400		
2	H. M. Miller	200	20000	400		
3	C. J. Barber	200	20000	400		
4	R. E. McCarthy	150	15000	300		
5	W. L. Sampson	150	15000	300		
6	A. F. Harvey	100	10000	200		
		1000	100000	2000		

Make out six separate vouchers. Paid cash at once to all stockholders except Mr. Miller who is away on his vacation and has given instructions that his dividend be held until his return. Write the date, June 5, in the "When Paid" column opposite all names in the list except that of Mr. Miller, and opposite each date record the number of the voucher issued. (Separate vouchers were issued so that separate receipts would be secured from the stockholders.) The account charged is the Dividend No. 1 account. Make one Cash Book entry.

June 5. Bought of the Sherwin-Williams Paint Co., 1220 W. Randolph St., 100 gals Best E. G varnish, at $1.35; and 45 50-lb. kegs No. 18 x 924 white lead at 4¢ per lb. Terms, 2/20 n/60. These materials were for use in manufacturing.

June 6. The superintendent of the factory reported that finished implements had been turned to over the sales department amounting to $2256.35, at estimated cost.

June 6. Cash sales reported, $557.20.

June 6. E. A. Robinson & Bro. remitted to us the net amount due on our invoice dated May 27, less freight charges of $17.35. This amount was our share of the freight charges, as agreed (See transaction on May 27). In computing the amount due they first deducted 5% of the entire bill, and then subtracted $17.35 from this (See second note under transaction for May 28).

Credit E. A. Robinson & Bro. for the cash and discount through the Cash Book. Credit them through the Journal for the amount of the freight.

June 7. Bought 100 2¢ stamps.

June 7. Bought from the Lockett Hardware Co., 171 Randolph St., City, terms 1/15 n/30, 20 gr. No. 8 ⅝-in. iron wood screws, at $.92; 20 gr. No. 10 ⅞-in. do., at $1.15; 10 kegs 10d wire nails at $4.50; and 4 kegs 6d ninge nails at $6.05.

June 7. Sold to the Farmer's Supply Co., Watseka, Ill., 12 Junior hay stackers at $43.50 less 5%; and 12 B290 one-horse mowers, at $42.50, less 10%. Terms, 2/10, n/Oct. 1.

June 8. Received cash of Marc Lombard & Co., for bill due today less discount.

June 8. Sold Wilkins & Freeman, June 15 dating, terms 2/10 n/Oct. 1, 8 No 4. gang plows, at $57.50; 9 No. 2 hay tedders, at $37.50 less 10%.

June 8. The payroll for the week was $169.50, as follows: Materials Expense,

$10.00; General Expense, $12.50; Manufacturing Labor, the rest. Paid the salary of Edna Wilson, the stenographer.

June 10. Martin L. Mills, 22 Rookery Building, City, stepped into the office with a certificate for 150 shares of stock, standing on our books in the name of R. E. McCarthy, which shares were transferred to him. (Your teacher will sign these endorsements or authorize some one else to do so.) Mr. Mills wished us to record the transfer on our books so that he might vote the stock and be entitled to the dividends thereon.

Note. Mr. Mills did not buy this stock directly from Mr. McCarthy. When Mr. McCarthy wished to dispose of his stock he endorsed it in blank and delivered it to a stock broker, who sold it for him. The man to whom the broker made the sale bought it for purposes of speculation and did not require the broker to deliver the actual stock to him, but merely took the broker's receipt for the money paid. The following day the first speculator ordered the broker to sell the stock, another speculator buying it. In this way the stock was owned by several speculators in quick succession, until Mr. Mills bought it. Mr. Mills wished to keep the stock, vote it, and draw its dividends. He therefore required the broker to fill in his name in the endorsement of the certificate, as assignee (the endorsement had been in blank, remember, up to this time), and to deliver to him the certificate itself, which he delivered to the company for transfer.

Note. Installment Receipts may be transferred by endorsement in the same way that Stock Certificates are transferred. The form of endorsement used will of course differ, as the assignor can only assign his rights and interest in the stock and not the stock itself; and for the further reason that the assignor cannot transfer to the assignee his obligation on unpaid subscription. These conditions are often incorporated in the form of endorsement.

Make out a new Certificate of Stock (Certificate No. 7) in favor of Mr. Mills and deliver it to him, and be sure to fill out the transfer record on the stub. Post from the stub to the credit of Martin L. Mills and from the transfer record to the debit of R E. McCarthy in the Stock Ledger.

Cancel the old Certificate by writing across its face in red ink the words "Cancelled June 10, 19—, and Certificate No. 7 issued in exchange to Martin L. Mills." Write the same cancellation notice on the stub. The Secretary (your teacher, or some one authorized by your teacher) must sign both cancellations. Paste the old certificate back on its stub.

June 10. Sold to Cameron & Cameron 8 Zigzag 14-tooth cultivators at $20.00 less 6¼%; and 12 land rollers at $22.50, less 10%. June 15 dating. Terms, 5/30 n/Oct. 1.

Note. We offered to date the bill ahead as an inducement for them to place the order at once.

Note. Our customary terms for June sales are 5/30 n/Oct. 1. Hereafter these terms will be referred to as "Regular."

June 11. Paid for extra help in the factory, from the petty cash fund, $1.75.

June 11. Received cash from the Dalton Implement Co. for bill due today, less discount, and plus freight advanced by us.

June 11. Sold Marc Lombard & Co., Winona, Minn., on a June 15 dating, 12 No. 9 side-hitch sweep rakes at $15.50 and 8 No. 4 gang plows, at $57.50. Terms Regular. Shipped via C. & N. W. R. R. and prepaid freight, $32.50.

June 11. Received cash from Cameron & Cameron for the net amount of the bill against them dated June 1. They are entitled to 5% cash discount, and also to a discount at 6% for the twenty days' prepayment. This last is an Interest and Discount item and should be handled through the Journal. In posting, enter in Cash Discount column.

Note. The Interest and Discount item is 1/3 of 1% of the amount remaining after the cash discount is deducted.

In posting to Cameron & Cameron's account in the Sales Ledger, enter the net cash payment in the right hand credit column on the same line on which the debit is entered. In the left hand credit column enter both the cash discount and the Int. & Dis. item, on the same line. This may be accomplished by writing both items in small figures, one above the other in the same space.

Note. Students of bookkeeping as a general rule write too large a hand and make large and sprawling figures. If you have this bad habit, overcome it. The foregoing entry affords you an opportunity to practice making small neat figures.

June 12. Sold to F. E. Durrell, Quincy, Ill., on our regular terms and with a June 15 dating, 4 headers, at $82.50; and 12 hand-dump hay rakes at $16.25. Shipped via C. B. & Q. freight charges collect.

June 12. Mailed 6000 advertising circulars under 1¢ postage. Paid cash for the stamps. The envelopes were sold to us on account by the Wimberton Paper Co. at $1.32½. W. P. Dunn & Co. charged us $28.00 for the circulars, including paper and printing. Paid an extra stenographer $2.00 a thousand from the petty cash fund for addressing 3000 envelopes.

June 13 Cash sales reported $215.75.

June 13. Bought of the United States Steel Corporation 24100# of cast steel at 3½¢. Terms 1/5, n/30. Goods were shipped F.O.B. Pittsburg, via Big Four. Freight charges, $42.75.

June 14. Paid $2.16 from the petty cash fund. $1.00 of this was for office supplies; the rest was for materials used in the factory for manufacture.

June 14. Sold Warren & Co., F.O.B. destination, June 15 dating, terms Regular, 2 grain binders on trucks, at $85.00; 12 No. B26 riding cultivators at $25.00; and 3 No. 4 gang plows at $57.50. Prepaid freight via C. B. & Q., $23.60.

June 14. Received of W. F. McKinney cash for the net amount of his bill of June 4 less cash discount, and less discount on anticipated payment. (See last Trans., June 11.)

June 15. Bought of Weyerhauser & Co., Davenport, Iowa, 23½ M. ft. of ash lumber at $42.00. Terms, Note 30 days, freight allowed.

Note. Fill out a voucher and make the record in the Vouchers Payable Register in the usual way.

The lumber arrived today via the C. R. I. & P. R. R. and we paid the freight charges, $26.65.

Note. Fill out a voucher and make a record in the Vouchers Payable Register charging Weyerhauser & Co. Make an entry in the Cash Book.

Gave Weyerhauser & Co. our note for the amount due them after deducting freight charges.

Make an entry in the Journal, debiting Vouchers Payable for the amount of Voucher No. 63, and crediting Notes Payable and Weyerhauser & Co. Mark voucher No. 63 "Paid by note June 15, 19—, less $26.65 freight charges" in the Vouchers Payable Register Show the deduction on the voucher and stub.

June 15. The payroll for the week was $171.00, distributed as follows: General Expense, $10.00; Materials Expense, $12.50; Manufacturing Labor, the rest.

Paid Edna Wilson's salary.

June 17. The factory superintendent has turned over to the sales department finished implements the cost value of which is $3267.90.

June 17. Sold to J. C. Houston 6 Junior hay stackers, at $41.50; 12 Corn King disc harrows, at $21.75; and 15 doz. rolls binder twine, at $2.75. Terms Regular.

Paid freight via C. P. & St. L., $21.40, which amount we charged to J. C. Houston.

June 17. Bought of Wm. Denckmann & Co., Duluth, Minn., 19500 ft. 2 x 6 x 30-in. oak lumber, at $75.00; and 20,000 ft. 2 x 8 x 36-in. do., at $75.00. Freight prepaid. Terms, net 60 ds.

June 17. Received in cash the net amount due from the Farmers' Supply Co.

June 18. W. L. Sampson has disposed of 50 shares of his stock to E. G. Meyers, 1440 Monadnock Bldg., City. Mr. Sampson endorses his certificate for 150 shares as follows: "For value received I hereby sell, transfer and assign to

E. G Meyers, 50 shares.

W. L. Sampson, 100 shares.

the shares of stock within mentioned, etc.," signing the endorsement. We cancel the old Certificate and issue in lieu of it two new certificates, No. 8 to E. G. Meyers for 50 shares, and No. 9 to W. L. Sampson for 100 shares. Cancel the old Certificate, using a full explanation which is written on both certificate and stub. Paste the Certificate back on its stub. Deliver the new certificates to the proper parties.

Post from the stubs of Certificates 8 and 9 to the Stock Ledger. Certificate No. 9 will be posted to both the debit and credit of Sampson.

Note. This is necessary in order that the records of certificate numbers shall be full and complete in the Stock Ledger. The debit and credit may be written on the same line. The balance of Sampson's account will not be changed by the posting of this equal debit and credit.

June 18. Paid the U. S. Steel Corporation for the invoice due today, less discount.

June 19. Discharged Oliver Barker, a workman, today and paid him $2.25 from the petty cash fund.

If there is not $2.25 left in the petty cash fund, fill out a voucher for $20.00 more to be used for petty cash disbursements.

June 19. Sold W. F. McKinney, 6321 Cottage Grove Ave., 8 out-throw disc harrows at $21.25; and 8 in-throw disc harrows at $19.50. Terms Regular.

June 19. Through our own mistake, the lumber bought on the 15th was not cut to the proper size and planed for our use. We had to have this done ourselves, and today had the work done by the South Side Planing Mills Co. They submitted a bill for $26.75 for the work. This is chargeable to Materials Expense.

June 20. Sold Cameron & Cameron, on Sept. 1 dating, terms Regular, 20 land rollers at $21.00 less 10%.

June 20. Sold G. W. Hurd, terms Regular, 9 No. 2765 one-horse seeders at $12.45 and 12 bumper disc harrows at $20.50.

Prepaid the freight via the Michigan Central, $18.27.

June 21. Sold to S. F. Lancey for cash less 2% 20 knife grinders, at $3.50; and 20 doz. rolls binder twine, at $2.75. Shipped the goods to St. Paul via C. M. & St. P. R. R. charges collect, but with the understanding that Mr. Lancey was to deduct the amount of the freight from his next remittance.

Note. Mr. Lancey was a regular customer of ours and we desired that this transaction should show in his ledger account. Therefore we charged him in the usual way through the Sales Book and credited him at once through the Cash Book. The entry in the Sales Book should show the gross amount of the bill. The terms are "Cash less 2%. Freight allowed."

June 21. Bought from the Southern Pine Lumber Co., Rock Island, Ill., 25740 ft. white pine lumber at $24.60 per M. Terms, note 60 days, freight allowed. The note will not be sent to them until we receive the lumber and pay the freight charges.

June 22. The payroll for the week was $170.50, as follows: General Expense, $10.00; Materials Expense, $12.50; Manufacturing Labor, the rest. Paid Miss Wilson's salary.

June 22. Paid the Lockett Hardware Co's. bill of June 7.

June 22. Sold J. L. Cashel for spot cash 10 No. 049 disc harrows at $23.75, and 2 land rollers at $20.00. Prepaid freight, $17.65. Shipped by C. B. & Q.

Note. We do not wish to carry an account with Mr. Cashel any longer. Treat this as a cash sale, in the usual way.

June 24. C. J. Barber has sold J. E. Colby 25 shares of his stock.

Note. Mr. Barber's old certificate is cancelled and two new ones issued in its place. See transaction on June 18.

June 24. Sold the Dalton Implement Co. on our regular terms 4 one-horse hay presses, at $127.50, and 22 broadcast seeders, at $15.00.

Prepaid freight via C. & A. R. R., $34.02, and charged the freight to them.

June 24. Mr. Miller having returned, his dividend No. 1 was paid to him in cash. A voucher has already been issued for this dividend.

June 24. The lumber bought of the Southern Pine Lumber Co. arrived via the C. R. I. & P. today. We paid the bill, $32.16, charging the Southern Pine Lumber Co.

June 24. Sent to the Southern Pine Lumber Co. our 60-day note for the amount due for lumber bought June 21, after deducting the freight charges. Date of note, June 21.

Mark the voucher issued on June 21 "Paid by note June 24, less freight, $32.16," and make the same notation in the Vouchers Payable Register. Make a journal entry debiting Vouchers Payable and crediting Notes Payable and Southern Pine Lumber Co.

June 25. Paid cash from the petty cash fund for one dozen lead pencils for the office, 45¢.

June 25. Discounted the Sherwin-Williams Paint Co's bill of June 5.

June 25. Received checks today from the following firms for bills dated June 15: Cameron & Cameron, Marc Lombard & Co., F. E. Durrell, and Warren & Co. These are all anticipated payments.

Wilkins & Freeman, who owned for Mdse purchased June 15, failed and went into the hands of a receiver. We filed our affidavit of claim with the receiver. Paid notary public for taking acknowledgment of the affidavit, 25¢ from the petty cash fund.

June 26. The factory superintendent reports finished implements amounting to $2726.58.

June 26. Paid the Lincoln Foundry Co. the net amount due them today.

June 26. Bought of McNeil and Jones, 4658 Lincoln Ave., terms 2% for cash in 30 days, 9538 bar steel at 4¢.

June 26. Sold Marc Lombard & Co., terms Regular, 8 deep well belted pumping jacks, at $12.50; and 9 B290 one-horse mowers, at $40.00. Shipped "Delivered."

June 27. H. M. Miller sold 35 shares of his stock to J. E. Colby.

June 27. Received J. C. Houston's check for the net amount to settle invoice of June 17 and freight advanced by us on that date.

June 28. Bought office supplies amounting to 35¢, paying from the petty cash fund

June 28. The receiver for Wilkins & Freeman mailed a statement showing the

liabilities of that firm to be $10500.00, and the assets $6825.00 after all receivership expenses have been paid. He encloses check for the amount due us. Make entries in the Journal and the Cash Book.

June 28. Sold the Dalton Implement Co. 24 knife grinders at $3.50 and 10 doz. rolls binder twine, at $2.75. Terms Regular. We prepaid the freight, $4.23, shipping via the C. & A. R. R.

June 28. Sold to F. E. Durrell on our usual terms, 18 No. 03 cultivators at $12.50 and 4 No. 5 gang plows at $37.50. Freight charges to be paid by the buyer.

June 29. G. E. Baker paid cash for his note due tomorrow and interest for 90 days. See opening entry, May 1.

June 29. Received cash from W. F. McKinney for our invoice of June 19 less cash discount. If he is entitled to any discount for anticipation, allow it.

June 29. The payroll for this week was $174.60, as follows: General Expense, $10.00; Materials Expense, $12.50; Manufacturing Labor, the rest. Paid Miss Wilson's salary.

June 29. The treasurer reports interest earnings received on funds deposited in bank, $250.00. The bank has credited our account as for a cash deposit.

June 29. Paid the monthly salaries the same as last month.

June 29. Mailed to Critchell & Whitney a check to reach them July 1 for the amount due them on that date, as itemized in Voucher No. 2.

Post.

Test the Vouchers Payable Register.

Take a trial balance.

Make statements, using the following estimates and inventories:

Depreciation on Factory & Site, ½ of 1%	$ **.**
Depreciation on Tools & Machinery, ½ of 1%	***.**
Interest accrued on notes receivable	**.**
Discount at 6% on notes payable	*.**
Unexpired insurance 2 yrs 11 mo	***.**
Implements inventoried at	6854.03
Materials inventoried at	310.45
Unfinished implements inventoried at	469.85
Estimated Materials, $295.60; Labor, $174.25.	
Anticipated cash discounts on sales	***.**
Anticipated freight allowance to Marc Lombard & Co	22.50
Anticipated freight allowance to S. F. Lancey	3.75
Anticipated cash discount on vouchers payable	*.**

Your statement of resources and liabilities will have to show the following items as liabilities:

Reserve for Depreciation.
Reserve for Surplus.
Undivided Profits (the ledger balance plus the profits for June).

The directors have seen and approved your statements. They order a Reserve for Surplus, $500.00. They also declare a dividend of 1½% to be paid at once in cash.

Prepare Dividend List No. 2.

Make journal entries for the reserve and dividend appropriation, and post them.

Pay Dividend No. 2 in cash.

Make a Journal entry charging off depreciation.

Close the loss or gain accounts in your General Ledger, following the order of closing given last month.

Prepare a balance of balances.

REVIEW NOTES, QUESTIONS, AND PROBLEMS

1. An inventory of $50.75 was used in closing the Materials Expense account May 31. It represented the coal on hand. What effect did this inventory have on the cost of Materials Expense for May?

2. This inventory was brought down June 1. What effect had this on the cost of Materials Expense for June?

3. Assuming that the hard (nut) coal was all used before any soft coal was used, how much soft coal was used during May? During June?

4. Since both coal bills were bought in May, why did you not close the Materials Expense account so as to charge them both against May? How could this have been done? Why would it have been improper?

5. Both bills were bought in May. Both were paid in June. Do either of these facts indicate how much shall be charged against May and June respectively? What is the proper amount chargeable to a given month and how is it ascertained?

6. What two inventories must be taken into consideration in determining the amount of labor expended upon implements produced during a given month?

7. Why did the Manufacturing Labor account have only one inventory June 29?

8. The anticipated cash discounts on May sales due in June was added to the May discounts. What effect had this on the Cash Discount Dr. account for May?

9. The above inventory was brought down. What effect had this on the Cash Discount Dr. account for June?

10. Prepare a list of discounts on June sales. Does the net result of the Cash Discount Dr. account for June agree with this total? Explain how your May 31 and June 29 inventories were used to bring this about

11. If the total of discounts on sales made during a given month should not agree with the result shown by the Cash Discount Dr. account, what would be the reason for the disagreement, assuming no error of computation on the bookkeeper's part? Explain carefully.

12. What was the percentage of profit on implements sold during May over their estimated cost? During June?

13. What must be charged for an article the estimated cost on which is $50.00, to realize the above profit for May? For June?

14. What was the percentage of profit on implements sold during May over the actual cost of production? During June?

15. What was the percentage of profit on implements sold during May over the actual production cost plus charges for depreciation and general expense? During June?

16. What was the percentage of net earnings on investment during May? During June?

Note. The investment for June is inclusive of capital stock, all reserves, and undivided profits.

CLOSING CORPORATION BOOKS AND DISPOSING OF PROFITS

Following are five exercises the main purpose of which is to illustrate different methods of closing the ledger and distributing the profits of a large corporation. Incidentally the accounts will be in each case typical of a different business. In each exercise, the data given is to be written up by the student in his ledger and cash book, after which the student will proceed to close the ledger in accordance with the specific instructions which will be given for each step.

Certain journal entries will be required as the work proceeds. In order to economize space in the journal, write the journal entries for each exercise immediately after the journal entries for the preceding exercise, leaving only two lines, on the latter of which will be written the number of the new exercise.

Handle the cash book in the same way. Leave two lines between each exercise and the one preceding it, writing the number of the exercise on the second line. Use the simple form of two column double entry cash book.

In none of these exercises is it pretended that a complete series of accounts is exhibited. The Exercises are of necessity brief, and contain only a few accounts, but such accounts as are shown are typical ones, and an understanding of them will give the student an appreciation of other accounts belonging to the same general class.

No journal entries are required to close one account into another. Make journal entries for the transfers of portions of the profits to reserve, fund, and dividend accounts. (This is often done, however, without journal entries.) When cash is paid out an entry in the cash book is required.

EXERCISE I—THE RIALTO PRODUCE CO.

Purpose

To show the process of closing Loss & Gain into Undivided Profits and the distribution therefrom to reserve accounts and to the Dividend account.

The general ledger of the Rialto Produce Company exhibits the following condition after the loss or gain accounts have been closed into Loss & Gain, August 31, 19—. Open the accounts and enter the items enumerated. Open six accounts on ledger page 1, and six accounts on page 2. Give each account six lines, except the Loss and Gain account and the Undivided Profits account, which require twelve lines each.

The Capital Stock account is credited for Subscription $50000.00 under date of June of 1, 19—.

The Furniture & Fixtures account has been closed August 31, and an inventory of $3400.00 brought down.

The Merchandise account shows an inventory brought down of $22640.60.

The Real Estate account exhibits an inventory of $20000.00.

The Loss & Gain account contains the following items, all under date of August 31: Losses: Furniture & Fixtures, $75.00; Expense, $443.10; Real Estate, $150.00; Salaries, $880; Advertising, $111.00. Gains: Mdse, $2975.60; Cash Discount, $230.50; Consignments, $456.25. These items represent the amounts which have been closed from the various loss or gain accounts.

The Undivided Profits account contains the following items. Debits: July 31, Surplus, $2000.00; July 31, Reserve for Bad Debts, $50.00; Credits: July 1, Balance, $1585.80; July 31, Loss & Gain, $2769.50.

The Accounts Receivable account (a controlling account) shows a balance of $2124.50.

The Accounts Payable account shows a balance of $1526.45.

The Dividend No. 7 account shows a credit of $1500.00, taken from Undivided Profits June 1, 19—. Against this credit are the following debits: June 10, Cash, $800.00; June 20, Cash, $400.00.

Note: A separate account is kept in the ledger for each dividend declared. Under this plan the ledger will show just what dividends are unpaid and the amount of the unpaid balance of each. These

separate accounts may be kept as controlling accounts, the details being shown in a Dividend Book, or they may be kept as consolidated accounts, the details showing in the ledger. In this exercise they are controlling accounts.

The Dividend No. 8 account has no entries as yet.

The Surplus account shows two credit items: June 30, Undivided Profits, $2000.00; July 31, Undivided Profits, $2000.00.

The Reserve for Bad Debts account shows two credit items: June 30, Undivided Profits, $50.00; July 31, Undivided Profits, $50.00.

The Cash Books shows a balance August 31 of $12069.90.

After opening the above accounts and making the entries indicated, take a trial balance.

August 31. Close the Loss & Gain account into Undivided Profits. The net amount thus transferred represents in a single amount the profits of the business before any amounts are set aside for surplus or reserved for bad debts, or paid out for dividends.

Dividend No. 7, which was declared June 1, has not all been paid in cash to the stockholders. Ascertain from the dividend account the amount of this unpaid balance, and pay it in cash. A cash book entry is required for this transaction. Post the entry at once.

The directors order that the following amounts be taken from the Undivided Profits account to the reserve accounts: For bad debts, 1½% of all accounts receivable; for surplus, an amount equal to 2½% of the capital stock. Make journal entries and post. Close Undivided Profits with a balance, in order to ascertain the amount available for dividends.

Sept. 1. A dividend of 2% (Dividend No. 8) is declared by the directors. Make a journal entry and post.

Sept. 10. Dividends amounting to $800.00 are paid in cash to stockholders E, B, C and D on account of Dividend No. 8. Cash book entry.

Take a trial balance.

Problem: There are 500 shares of Rialto Produce Company stock, owned as follows: A, 100 shares; B, 120 shares; C, 50 shares; D, 150 shares; E, 80 shares. Properly rule up a sheet of blank paper and prepare Dividend List No. 8 as follows:

DIVIDEND NO. 8. RIALTO PRODUCE CO. 2%

Date 19—.	Shareholders	No. of Shares	Par Value of Shares	Amount of Dividends	When Paid	Shareholder's Receipt (Signature)
Sept. 1	A					
1	B					
1	C					
1	D					
1	E					
	Totals					

Fill out the columns of the above form from information given you under dates of Sept. 1 and Sept. 10.

The column for the shareholder's receipt will, of course, not be included in a form used by a corporation which pays dividends by dividend check or the stockholders of which live at a distance and send their receipts by mail.

Review Questions

Into what account was the Loss & Gain account closed?

What does the amount closed from the Loss & Gain account show?

From what account were the two reserves taken?

What account did the directors inspect in order to determine the amount available for Dividend No. 8? When did they inspect it?

What does the difference between the debit and credit sides of the Undivided Profits account indicate as that account now stands?

Suggest two possible ways in which the balance of Undivided Profits could be disposed of, if it were desired to close that account.

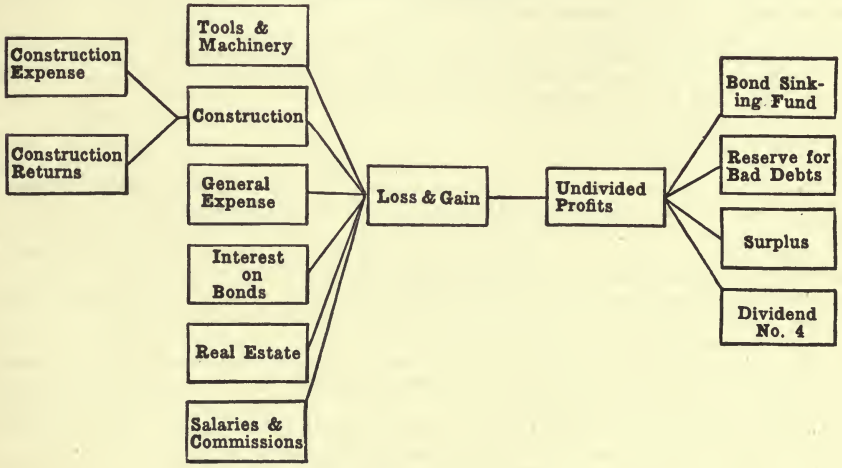
EXERCISE II—THE NORTHWESTERN CONSTRUCTION CO.

Purpose

To show the process of closing subordinate loss or gain accounts into main loss or gain accounts, the closing of main loss or gain accounts into the Loss & Gain account; the closing of Loss & Gain into Undivided Profits; and the distribution therefrom to Sinking Fund Reserve, Reserve for Bad Debts, Surplus, and Dividend accounts.

Under the plan of distribution shown in Exercises I and II the entire net profit of the business is transferred from the Loss & Gain account to the Undivided Profits account, thus exhibiting the profit at the time of closing in a single figure. For this reason this plan is preferable to any other. Its effect is to make the Loss & Gain account show the sources of profit and loss, and the Undivided Profits account show the avenues of distribution of profits. The use of the Undivided Profits account begins where the use of the Loss & Gain account ceases. The following diagram will illustrate this:

DIAGRAM FOR EXERCISE II



Nov. 30, 19—. The accounts of the Northwestern Construction Company stand as follows. Open them in the ledger in the order named. Give Construction Expense, Loss and Gain, and Undivided Profits ten lines each; all other accounts six lines each.

The Capital Stock account has one credit entry: Sept. 1, 19—, Subscription, $75000.00.

The Real Estate account exhibits an inventory Nov. 1 of $10950.00.

The Tools & Machinery account exhibits an inventory Nov. 1 of $44250.00. This is a property account. It includes tools and machinery used for construction purposes.

The Construction Expense account has four entries, all debits: Nov. 5, Cash, $1120.00; Nov. 7, Cash, $6.50; Nov. 16, Cash, $1065.40; Nov. 25, Cash, $40.00. These are the sums paid out for labor and materials used in building.

The Construction Returns account exhibits a total credit for November of $9609.20. This is the total amount received from customers for whom we have built.

The Construction account contains no entries.

The "4% Bonds of 1918" account has a credit balance of $10000.00, dated Nov. 1. This $10000.00 is a liability. The corporation will have to redeem the bonds in 1918. Meantime, interest must be paid every quarter at the rate of 4% per annum.

The Salaries & Commissions account contains the following debits: Nov. 30, Payroll, $1510.00; Nov. 30, Officers' Salaries, $850.00; Nov. 30, Commissions, $275.00. These debits are the net results of three subordinate accounts which have been closed into the Salaries & Commissions account. The "Commissions" referred to are percentages allowed to agents aside from salary.

The General Expense account shows one debit item: Nov. 30, Cash, $724.50. This is the total of the Expense column which has just been posted from the cash book. It includes items of expense not properly chargeable to some special expense account.

The Interest on Bonds account shows a debit footing of $300.00. This account contains only items of interest paid on the 4% Bonds of 1918.

The Loss & Gain account contains no entries.

The Accounts Receivable account shows a balance of $11248.25.

The Bills Receivable account shows a balance of $10147.15.

The Undivided Profits account shows a credit balance of $732.03, dated Nov. 1.

The Bond Sinking Fund has one credit entry of $1000.00, closed from Undivided Profits on Oct. 1. This account contains amounts reserved from the profits at periodical intervals in order to provide for the redemption of the bonds in 1918. It is planned that the amounts so reserved will aggregate $10000.00 when the time comes for paying off the bonds in 1918.

The Reserve for Bad Debts account shows a credit balance of $47.50, dated Oct. 1.

The Surplus account shows a credit balance of $500.00, dated Oct. 1.

The Dividend No. 4 account shows no entries.

The Cash Book shows a balance on Nov. 30 of $14401.93.

Take a trial balance.

Nov. 30, 19—. Pay in cash interest on the bonds for one quarter. You must determine the amoun- of this payment from the amount of the bonds outstanding and the rate of interest they bear. Cash book entry.

Close Construction Returns and Construction Expense into Construction. The value of construction materials on hand, $22.50, is Construction Expense inventory.

Close Tools & Machinery (Inventory $44000.00), Construction, Salaries & Commissions, General Expense, Interest on Bonds, and Real Estate (inventory, $10900.00), into Loss & Gain.

Close Loss & Gain into Undivided Profits.

Set aside $1000.00 from Undivided Profits for the Bond Sinking Fund account. Journal entry.

Set aside ½% of Accounts Receivable for the Reserve for Bad Debts. This is reserved from the Undivided Profits account. Journal entry.

Reserve $500.00 from Undivided Profits for the Surplus Fund. Journal entry. Inspect the Undivided Profits account to ascertain the amount available for a dividend.

Nov. 30. A dividend of 1½% (Dividend No. 4) is declared. Journal entry.

Close the Undivided Profits account.

Take a trial balance.

Problem: Dec. 10. The shareholders in this company are A, B, C, and D, who hold stock as follows: A, 150 shares of $100.00 each; B, 200 shares of $100 each; C, 220 shares of $100.00 each; D, 180 shares of $100.00 each. A, B, and C have today been paid in cash for their dividends. Make the entry in the cash book and post. Prepare Dividend List No. 4 as in Exercise I.

Review Questions

What six main loss or gain accounts are shown in Exercise II?
What two subordinate loss or gain accounts are shown and to what account are they subordinate?
Into what account are all losses and gains finally gathered?
What is the advantage of closing Loss & Gain into Undivided Profits before taking out any reserves?
What account shows sources of profit and loss?
What account shows avenues of distribution of profits?
What four accounts show how the profits are distributed?
Why was the Undivided Profits account closed before Dividend No. 4 was declared?

EXERCISE III—THE C. & G. R. R. CO.

Purpose

To show the method of handling stock and dividend accounts when both common and preferred stock are issued; to show a Bond account and Sinking Fund Asset account as kept when assets are placed in the hands of Trustees for the redemption of the bonds; and other features as in Exercise II.

Accounts

Sinking Fund Assets: The student is referred to the definitions of "Reserve for Sinking Fund" and "Sinking Fund Assets," on page 169. Remember that these two accounts are not at all alike—in fact, they are diametrically opposite. The Sinking Fund Reserve is a mere bookkeeping device for reservation of profits (as are the Surplus and other reserve accounts). The Sinking Fund Assets account contains a record of actual assets reserved. The account used in this exercise is the Sinking Fund Assets account.

Operating Expense: Separate records are kept of expenses that have to do with the actual operation of the road. Accounts are kept with Transportation Expense and Maintenance Expense, and these are closed into Operating Expense, which is in its turn closed into Expense.

Repair Shop, Rolling Stock, and Road-Bed and Tracks. These are typical property accounts. Instead of being closed with an inventory, a certain amount is "written off" of each into the Reserve for Depreciation account. This is done by a journal entry crediting the property account and debiting Reserve for Depreciation. The property account is then closed with a balance.

Depreciation Reserve. Depreciation is here kept as a reserve account. A part of the Undivided Profits account is carried to the Depreciation Reserve account by a journal entry debiting Undivided Profits and crediting Depreciation Reserve. The amounts written off of the various property accounts are carried to the debit of Depreciation Reserve.

Note: The depreciation account may be treated as an expense account. In such a case, Depreciation is debited for items of depreciation from the various property accounts, and Depreciation is closed into Loss & Gain. This is not the method used in this exercise.

It may be here remarked that there are other accounts usually treated as reserves which may be treated as simple expense accounts if desired. The Contingency account and the Dividends account are instances of this. Instead of setting aside an amount for reserve in each case, against which the losses are charged, the losses may be charged directly to the account affected, which is closed into Loss and Gain. This is not so good as the plan of creating a reserve.

Reserve for Contingencies. This account is kept in order to provide against loss through unforeseen contingencies. Damages for injuries and other heavy expenses aside from the regular expenses of conducting the business, are provided for through this reserve account.

The diagram on page 196 is illustrative of the method of handling subordinate expense accounts used in Exercise III.

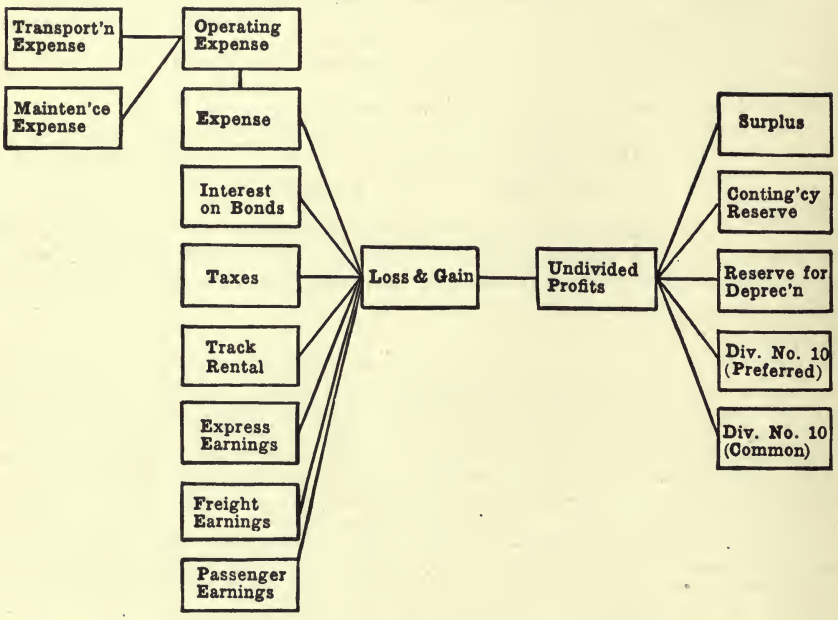
In opening the ledger accounts, give the Loss and Gain and Undivided Profits accounts each ten lines; all other accounts, six lines each.

Apr. 30, 19—. The ledger and cash book of the C. & G. Railroad stands as follows:

Capital Stock (Common), $75000.00.
Capital Stock (Preferred), $925000.00.
First Mortgage Bonds, $100000.00.

Sinking Fund Assets (Trustees), $75000.00 debit. This account exhibits the total assets which have been paid over to trustees for the redemption of the First Mortgage Bonds at maturity. It is some-

DIAGRAM FOR EXERCISE III



times called the Trustees of Sinking Fund account, but this title is misleading, as the trustees usually have no personal liability except for honest and careful management.

The Transportation Expense account shows a debit balance of $598.70. This includes such items as yard, shop, and road salaries; operating supplies; and advertising.

The Maintenance Expense account shows a debit balance of $987.39. This includes the cost of materials and labor used in keeping the roadway, structures (depots, freight houses, etc.), and equipment of the road in good condition.

The Operating Expense account contains no entries.

The General Expense account shows a debit footing of $675.40.

The Interest on Bonds account shows a debit footing of $333.33.

The Repair Shop account shows an inventory of $12650.00. This is a property account exhibiting the value of the shops in which cars are repaired.

The Rolling Stock account shows an inventory of $300000.00. This is a property account, representing the value of cars and locomotives.

The Road Bed and Tracks account shows an inventory of $710000.00. This is a property account. It is charged with the cost of track construction and represents the value of the tracks as laid down.

The Loss & Gain account exhibits the following entries, all dated Apr. 30, 19—: Debits: Taxes, $360.07; Track Rentals, $183.40. Credits: Freight Earnings, $16684.28; Express Earnings, $1237.50; Passenger Earnings, $13467.20. These amounts are the losses and gains which have just been closed from the five accounts named.

The Undivided Profits account shows a balance of $6740.00.

The Surplus account shows a balance of $27043.60.

The Contingency Reserve account shows a credit balance of $6806.29.

The Depreciation Reserve account shows a credit balance of $1956.40.

The Dividend No. 9 (Common) account has the following entries: Credit: Feb. 1, Undivided Profits, $750.00. Debit: Apr. 30, Cash, $650.00.

The Dividend No. 10 (Common) account has no entries.

The Dividend No. 10 (Preferred) account has no entries.

The Cash Book shows a balance of $73246.98.

Apr. 30, 19—. Paid interest on bonds in cash, $166.67.

Dividend warrants issued on Feb. 1 to holders of common stock for Dividend No. 9 are presented for payment. They amount to $100.00, and are paid in cash.

Close Transportation Expense and Maintenance Expense into Operating Expense. Close Operating Expense into General Expense. Close General Expense and Interest on Bonds into Loss & Gain. Taxes, Track Rental, Express Earnings, Freight Earnings, and Passenger Earnings have already been closed into Loss & Gain. Close Loss and Gain into Undivided Profits.

Write off for depreciation as follows: From Repair Shop, 2%; from Rolling Stock 1%; from Road Bed and Tracks, ½%. Close the three property accounts.

May 1. The directors order reservations from profits as follows: For surplus, $2500.00; for contingencies, $1000.00; and for depreciation, $5000.00. They also declare dividends of 2% on the preferred stock and 1% on the common stock (Dividend No. 10). Close the Undivided Profits account.

The preferred dividends are paid in cash.

The directors order that $25000.00 in cash be paid over to the sinking fund trustees. The trustees now have $100000, and are instructed to pay off the bonds. Make a journal entry debiting the bond account and crediting the sinking fund account.

May 10. The company has lost a damage suit and been compelled to pay $5000.00 in cash for an accident to a passenger. Charge the Contingency account.

Take a trial balance.

Review Questions

What is a Sinking Fund Asset account?

Why is it the exact opposite of a Sinking Fund Reserve account?

What is the difference between a Depreciation Reserve account and a Depreciation Expense account?

What is a Contingency Reserve?

What subordinate account closes into Expense, in Exercise III? What two subordinate accounts close into this subordinate account?

Of the seven main loss or gain accounts, what four exhibit expense?

What two classes of dividend accounts are kept? Why?

What other name is sometimes given for the Sinking Fund Assets (Trustees) account? Why is the name here used preferable?

Into what accounts are the undivided profits distributed?

EXERCISE IV—THE SYRACUSE GAS CO.

Purpose

To give an idea of the elaborate system of cost accounts required for the bookkeeping of a large manufacturing corporation; to show how the profits of the business of a subsidiary company may be kept in the Loss & Gain account, no special funds or reserves being maintained except for Dividend, and no Undivided Profits account being kept.

As the obligations of the subsidiary company are all guaranteed by the larger company of which it is a part, there is no necessity for funding and reserve accounts. The entire net profit is shown in the Loss & Gain account.

Accounts

Construction. This is a property account. It is charged with costs of construction and represents the value of the company's mains.

Franchise. This is a property account, representing the value of the company's franchise, which is, speaking in a general way, the privilege granted by the city of laying and maintaining gas pipes.

Gas Coal. This is an account showing the cost of the coal used in the manufacture of gas. It is closed into Manufacturing.

Tar. This account is similar to the Gas Coal account.

Manufacturing. This is a summary account into which are closed many subordinate accounts such as Gas Coal, Tar, etc. Its result shows the total manufacturing cost. It is closed into the Gas account.

Gratuitous Work. This account shows the cost of work done free of charge for customers. It is closed into Distribution.

Repairs to Mains. This account shows the cost of work in repairing the large pipes or mains through which the gas is distributed over the city. It is closed into Distribution.

Distribution. This is a summary account. Into it are closed the many subordinate accounts showing the cost of the distribution of the gas. It is closed into the Gas account.

Commercial Expense. This is a summary account into which are closed the many subordinate accounts showing office expense. It is closed into the Gas account.

Manufacturing Expense, Distribution Expense, and *Office Expense* are subordinate accounts closing into Manufacturing, Distribution, and Commercial Expense respectively.

General Expense contains a record of all expense not readily classified in one of the special expense accounts. Its net cost is divided among Manufacturing, Distribution, and Commercial Expense in the proportion which Manufacturing Expense, Distribution Expense and Office Expense bear to each other at the time of closing.

Gas. This account corresponds to the Mdse account of an ordinary business. Into it are closed the Manufacturing, Distribution, and Commercial Expense accounts, besides many other summary accounts for other departments of the business.

This complex system is not burdensome. As a matter of fact, the system lends itself to economy of labor, since it enables each one of the hundreds of clerks to work exclusively on one book or one class of entries. A large volume of business could not be handled without great confusion except under a system that was well classified and greatly subdivided.

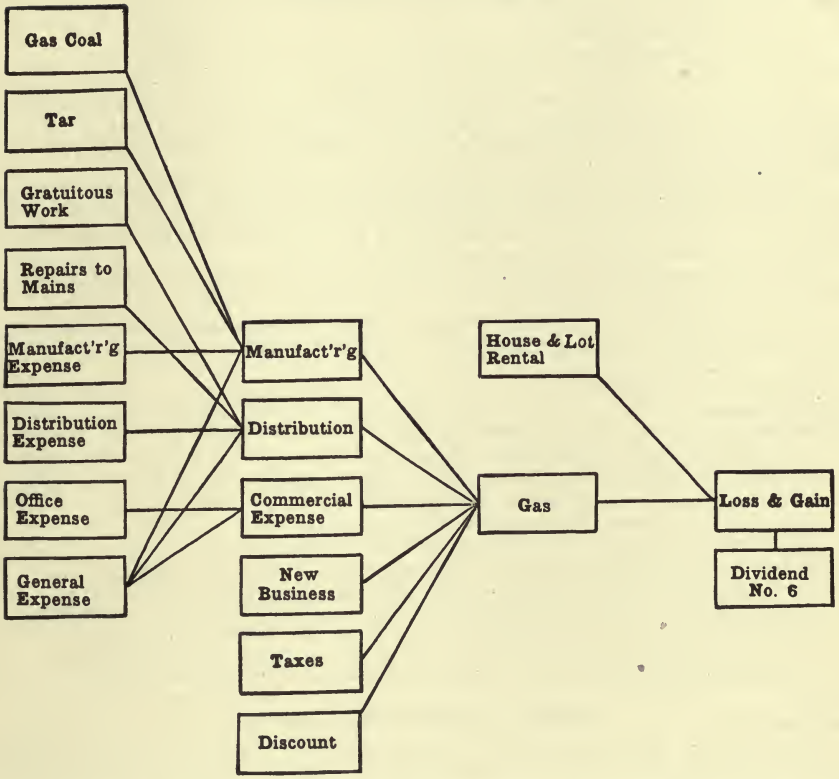
The diagram on page 199 will illustrate the method of cost and profit analysis used in the exercise. Note that the General Expense account balance is distributed to three accounts. Observe how the subordinate accounts (eight are shown in the diagram), close into the summary accounts (six of which are shown). The six summary accounts close into Gas, which we may call a principal loss or gain account. Two principal loss or gain accounts are shown as closing into Loss & Gain. Only one reserve is taken from the Loss & Gain account. This diagram and the other diagrams which have been shown should suggest the unlimited possibilities of cost analysis through the use of subordinate and principal accounts and summary accounts.

Give twelve lines in the ledger to the Gas account; ten each to Manufacturing, Distribution, and Commercial Expense; six lines each to all other accounts.

The accounts of the Syracuse Gas Company, a subsidiary corporation, stand as follows:

Capital Stock, $100,000.00. Entry dated Oct. 1, 19—.
Construction. Dr. Balance Oct. 31, $69802.95.
Franchise. Dr. Balance Oct. 31, $25000.00.
House & Lot Rental. Debit: Oct. 1, Cash, $525.00. Credits: Oct. 2, Sub-Rentals, $75.00.
Gas Coal. Dr. footing Oct. 31, $1246.75.
Tar. Dr. footing Oct. 31, $126.70.
Gratuitous Work. Dr. footing Oct. 31, $135.50.
Repairs to Mains. Dr. footing Oct. 31, $420.60.
Manufacturing Expense. Dr. footing Oct. 31, $3000.00.
Distribution Expense. Dr. footing Oct. 31, $2000.00.
Office Expense. Dr. footing Oct. 31, $1000.00.
General Expense. Dr. footing Oct. 31, $1475.64.
Manufacturing. Dr. footing Oct. 31, $4562.50.
Distribution. Dr. footing Oct. 31, $2123.64.

DIAGRAM FOR EXERCISE IV



Commercial Expense. Debit items Oct. 31 (already closed from subordinate accounts), are: Collection Expense, $175.00; Office Supplies, $250.00; Office Salaries, $1250.00.

New Business. Debit items Oct. 31 (already closed from subordinate accounts), are: Soliciting, $200.00; Advertising, $300.00; Demonstrating, $220.00.

Taxes. Debit footing Oct. 31, $215.00.

Discount. Debit item: Oct. 31, Cash Discount as per C. B., $525.60. Credit item: Oct. 1, Inventory brought down, $115.00.

Gas. Credit items Oct. 31 (as already closed from subordinate accounts): Gas Sales per S. L., $17459.60; Prepayment Gas (equivalent to Cash Sales), $2675.75; Sundry Sales, $1312.50; City of Syracuse, $2500.00.

Dividend No. 6. No entries.

Loss & Gain. Credit Balance Oct. 1, $5308.60.

Cash Book. Balance Oct. 31, $14891.57.

Oct. 31, 19—. Close Gas Coal, Tar, and Manufacturing Expense, into Manufacturing.

Close Gratuitous Work, Repairs to Mains, and Distribution Expense, into Distribution.

Close Office Expense into Commercial Expense.

Close General Expense into Manufacturing, Distribution, and Commercial Expense as follows:

Divide its balance into three parts bearing the same ratio to each other as Manufacturing Expense ($3000.00), Distribution Expense ($2000.00), and Office Expense ($1000.00) bear to each other.

Manufacturing Expense,	$3000.00
Distribution Expense,	2000.00
Office Expense,	1000.00
Total,	6000.00

It is apparent that Manufacturing Expense is 3000/6000 or ½ of the total. Distribution Expense is ⅓ of the total, and Office Expense is ⅙ of the total. One-half of the General Expense, therefore, will be closed into Manufacturing, one-third into Distribution, and one-sixth into Commercial Expense. Make three red ink entries.

Close Manufacturing, Distribution, Commercial Expense, New Business, Taxes, and Discount, into Gas. In closing Discount, use a debit inventory of $120.00. This inventory is the estimated amount of discounts on October bills which will be allowed during November, and its effect is to increase the cost of discounts for October. Bring the inventory down as usual.

Close Gas and House & Lot Rental into Loss & Gain. Close Loss & Gain with a balance, which will show the amount available for dividends.

Nov. 1. A dividend of 1¼% (Dividend No. 6) is declared and paid in cash. Make a journal entry and a cash book entry. Post both entries.

Take a trial balance.

Review Questions

What is the only reserve account kept in Exercise IV?
What two principal loss or gain accounts are kept?
Which is the more important of the two?
What are the summary accounts shown in Exercise IV?
From what four sources is the cost of Manufacturing ascertained?
What is the purpose of the Distribution account?
From what four sources is Distribution cost ascertained?
From what two sources is Commercial Expense ascertained?
To what accounts is the General Expense distributed and in what proportions? Explain fully.
What account in Exercise IV corresponds to the principal Mdse account of a mercantile business?
Why is it unnecessary for this subsidiary corporation to keep reserve and funding accounts?
What are the advantages of a high classification of the accounts of a large corporation?

EXERCISE V—THE CANTON PLOW CO.

Purpose

To exhibit the method of making a clean-cut distinction between costs of manufacturing and costs of selling, so as to arrive at the exact cost of the article produced. To illustrate the plan of taking surplus and reserves direct from the Loss & Gain account and transferring the remainder to the Undivided Profits account.

The effect of this plan of profit distribution is that Undivided Profits at no time shows anything but undivided profits, or the profits remaining after the surplus and reserve accounts have been cared for. Dividends are taken from Undivided Profits. The fact that dividends must not exceed net profits makes this a convenient plan. The plan of transferring the entire balance of Loss & Gain to Undivided Profits and taking surplus, reserves, and dividends therefrom, as illustrated in the preceding exercises, is the better plan, however, and is in more general use. The less popular plan is here shown in order that the student may become familiar with both.

Accounts

Subscription. This account exhibits the balance unpaid on capital stock. It is a controlling account for the subscribers' accounts in the stock ledger.

Steel, Lumber, and *Rivets.* These accounts represent costs of materials used in constructing plows. They close into the Raw Materials account.

Purchase Discount. This account effects a diminution of the cost of materials. It is closed into Raw Materials.

Coal, Office Expense, and General Expense are subordinate to Manufacturing Expense, closing into it.

Raw Materials, Manufacturing Labor, and Manufacturing Expense close into Manufacturing Cost.

Manufacturing Cost, when all its subordinate accounts are closed into it, exhibits the cost of the manufactured product as it is laid down in the Store-Room.

Store-Room stock records should be kept. The records of quantities of stock received are entered under proper heads (that is, a separate record for each implement manufactured), and the quantities sold are entered under these heads. The difference between the quantity received and the quantity sold is, in each case, the quantity on hand. The inventory thus furnished is of great value from day to day as showing on what articles the stock is running low. At the time of closing the books an inventory should be taken by an actual count of the goods in order to guard against error in the stock records. This is sometimes called a "physical" inventory.

Sales. This account is credited for all sales; and the Selling Expense, Shipping Expense, and Sales Discount accounts are closed into it.

Selling Expense consists mainly of salesmen's salaries and expenses.

Shipping Expense includes salaries of shipping clerks, materials used in the shipping-room, outfreight, etc.

Sales Discounts are a diminution of receipts from sales. Hence this account is closed into Sales.

Plows. This is the Mdse account. It is closed into Loss & Gain.

Interest. This account affects neither the cost of manufacturing or the sales. It is closed directly to Loss & Gain. Most of the interest items are for interest accrued on unpaid subscriptions.

Plant. This is a property account. It represents the value of the factory and site, machinery, and fixtures. Separate records could of course be kept for these things.

On page 202 is a diagram illustrating the system of cost analysis and profit distribution used in this exercise. Note the classification of expenses into expenses of manufacturing and expenses of selling. Note that the reserves are taken from Loss & Gain but that dividends are taken from undivided profits.

Dec. 31, 19—. The books of the Canton Plow Company stand as follows:

Capital Stock, $100000.00.

The subscription account is debited for the full amount of the capital stock. It also shows that 75% of the capital stock has been paid in.

The subordinate material accounts exhibit the following total costs: Steel, $12346.45; Lumber, $7842.65; Rivets, $3509.84.

The Purchase Discounts account exhibits a credit balance of $346.78.

The Raw Materials account has no entries.

The Manufacturing Labor account shows a total cost of $6074.28.

The subordinate expense accounts exhibit the following total costs: Coal, $1925.60; Office Expense, $1276.24; General Expense, $757.88.

The Manufacturing Expense account has no entries.

The Manufacturing Cost account contains no entries.

The accounts subordinate to the Sales account show the following debit footings: Selling Expense, $429.60; Shipping Expense, $251.25; Sales Discounts, $392.47. Shipping Expense inventory, $13.50.

The Sales amount to $48365.26.

The Plows account shows an inventory brought down of $9426.75.

The Interest accounts shows net returns amounting to $125.00.

The Loss & Gain account has no entries.

The Plant account shows an inventory brought down of $56542.00.

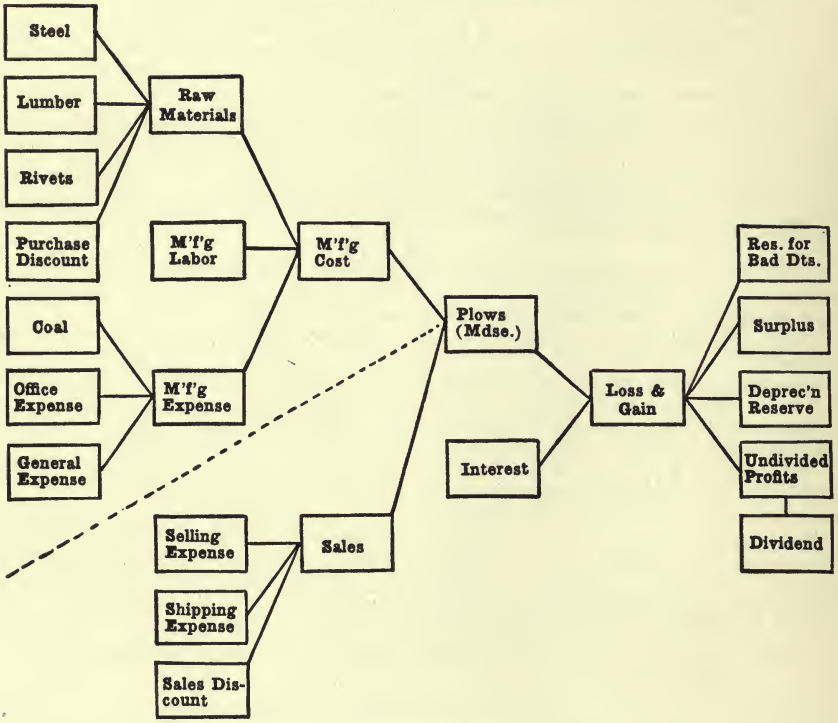
The Accounts Receivable account has a balance of $5674.20.

The Accounts Payable account has a balance of $4726.89.

The Reserve for Bad Debts account exhibits a credit balance of $129.60.

The Surplus Account exhibits a reserve of $13000.00.

Diagram for Exercise V



The Depreciation Reserve account is credited with $1237.50.
The Undivided Profits account has a credit balance of $329.65.
The Dividend No. 17 account contains no entries.
The Cash Book balance is $36811.47.

Take a trial balance.

Dec. 31, 19—. A call is issued for the balances of unpaid subscriptions. These balances, with accrued interest amounting to $250.00 in total, are paid in in cash by the subscribers.

Close Steel, Lumber, Rivets, and Purchase Discount, into Raw Materials. Inventories: Steel, $1269.50; Lumber, $982.60; Rivets, $604.27.

Close Coal, Office Expense, and General Expense, into Manufacturing Expense. Coal Inventory, $246.80.

Close Raw Materials, Manufacturing Labor, and Manufacturing Expense, into Manufacturing Cost.

Close Selling Expense, Shipping Expense, and Sales Discount into Sales.

Close Manufacturing Cost, and Sales, into Plows.

Close Plows (Inventory $9537.20), and Interest, into Loss & Gain.

Write off 3% depreciation from the Plant account. This is charged to Depreciation.

Make reserves as follows, from the Loss & Gain account: For Bad Debts, 1% of Accounts Receivable; for Surplus, $5000.00; for Depreciation Reserve, $2000.00.

Transfer the balance of the Loss & Gain account to the Undivided Profits account.

Jan. 1, 19—. It is now apparent from the condition of the Undivided Profits account that a 5% dividend may be safely declared, leaving half of the profits untouched. A 5% dividend is therefore declared and paid in cash. Make a journal entry and a cash book entry. Balance the Undivided Profits account.

Jan. 10. One of our customers has failed. He owes us $120.00 but can pay only 60¢ on the dollar, which amount he pays in cash. Charge the loss to the Reserve for Bad Debts account. Make a journal entry and a cash book entry.

Jan. 15. One of our employes has been injured and we have paid him $5000.00 in cash. As we keep no Contingency reserve, charge the loss against the Surplus account.

Balance the cash book.

Take a trial balance.

Review Questions

What are the two principal loss or gain accounts?

What account shows the net cost of manufacturing?

What account shows the net returns from the product manufactured?

Why is Purchase Discount classed with the accounts showing manufacturing cost while Sales Discount is classed with the selling accounts?

What three accounts close into Manufacturing cost?

What three accounts close into Sales?

What are the subordinate accounts shown in Exercise V and into what summary accounts do they close? (This question involves the entire system of costs used in this exercise.)

Suggest three subordinate accounts to close into the Selling Expense account.

The balance of Loss and Gain is transferred to what four accounts? How much of it is carried to Undivided Profits?

What is the advantage of the plan used in Exercise V for the Undivided Profits account?

What is the best way to handle the Undivided Profits account, and why?

What is the only account created from the Undivided Profits account in Exercise V?

What is done with the balance of the Undivided Profits account?

DISSOLUTION OF A CORPORATION

A corporation may be dissolved in one of four ways:

1. *By charter limitation,* the time having expired for which it was granted life by its charter.*

2. *By completion,* the purpose for which it was created having been fulfilled. In this case there is no longer any reason for its existence.

3. *By involuntary dissolution,* as when, by the act of court, its existence is terminated. This may be because of petition of creditors, or on account of its illegal acts.

4. *By voluntary dissolution,* as when stockholders relinquish an unprofitable enterprise.

Whatever may be the cause of its dissolution, the net cash realized from the sale of its assets after the expenses incident to dissolution have been met, is distributed among investors in the following general order of precedence:

1st. Bondholders.
2d. Preferred Stockholders.
3d. Common Stockholders.

*See page 76.

Corporations whose powers have expired by limitation or otherwise may continue to exist for two years for the sole purpose of closing the corporate affairs.

Closing Entries on Dissolution

When the net cash on hand is distributed among stockholders, the following entry is made:

Dr. Capital Stock.
Cr. Cash.

It may be that the amount of cash so paid will not equal the full face value of the capital stock. This discrepancy may be accounted for on the books by the following entry:

Dr. Capital Stock.
Cr. Undivided Profits.

If the stock realizes more than its face, and the cash paid to stockholders exceeds the face value of the stock, then:

Dr. Undivided Profits.
Cr. Capital Stock.

Since Capital Stock, Undivided Profits, and Cash were the only open accounts before these final entries were made, every account should now balance.

Review Questions

1. What is a corporation?
2. Name the three classes of corporations and define each.
3. In which class are railroads and other public utility corporations usually placed?
4. Name at least five advantages of the corporate form of organization.
5. What is the Certificate of Incorporation?
6. Give several names by which this instrument is known.
7. What is a charter? What two meanings has the word?
8. What is the usual procedure in case of organization under a general incorporation act?
9. Who is an incorporator? A subscriber? A stockholder? A promoter?
10. State the distinction between capital stock and capital.
11. How is the capital stock of a corporation generally divided?
12. What does a stockholder have to show his interest in the corporation?
13. Is this personalty or realty?
14. State the distinction between common and preferred stock.
15. Under what circumstances is preferred stock generally issued?
16. What is participating preferred stock?
17. What is non-participating preferred stock?
18. What is cumulative preferred stock?
19. In case several classes of preferred stock are issued, how are they distinguished?
20. Why is it right that some stock should be preferred?
21. Under what circumstances are dividends on stock sometimes guaranteed?
22. What is treasury stock?
23. What is watered stock?
24. State the distinction between watered stock and over-issued stock.
25. What is the nominal value of a share of stock?
26. What is its market value?
27. What is its intrinsic value? How may this be ascertained?
28. How may the ownership of stock be transferred?
29. Is a subscriber who transfers partly paid-up stock relieved from liability for the unpaid balance?
30. What are dividends?
31. By what authority are dividends declared?

32. Against whom may creditors bring suit for recovery for their loss on account of dividends being paid out of capital?
33. In whom is the management of a corporation vested?
34. How are they appointed?
35. By whom are their instructions carried out?
36. On what matters may stockholders usually vote?
37. What special voting privileges are granted to stockholders in Illinois corporations?
38. Into what two general divisions are the powers of a corporation classified?
39. Name at least five incidental powers.
40. Chartered powers. What two kinds are there?
41. Give at least five illustrations of each.
42. What is meant by the "power of succession"?
43. To what extent only may a corporation purchase and hold real estate, except by special provision of the charter?
44. How may a corporation act as an individual?
45. What are by-laws?
46. What remedy has a corporation against a stockholder who is a debtor of the corporation?
47. What is cumulative voting?
48. Show how cumulative voting protects the minority stockholders.
49. Under what conditions may a corporation endorse or guarantee commercial paper?
50. To what extent is a stockholder generally liable to corporate creditors?
51. To what extent is a stockholder in a national bank liable to corporate creditors?
52. Upon what must a creditor of a corporation rely for payment?
53. Upon what knowledge must he rely in extending credit to the corporation?
54. What are the four classes of corporation records?
55. In what respect is corporation accounting like the accounting of any other business?
56. What records must be kept in corporation accounting that are not kept in an ordinary business?
57. Name the three principal books for stock records.
58. Name two auxiliary stock record books.
59. What is the purpose of the minute book?
60. What is the object of the capital stock account?
61. Where are individual investments of stockholders shown?
62. What is the entry when capital stock is all paid in cash?
63. What entries must be kept when the capital stock is all subscribed for but only a part paid in cash?
64. What is the entry in case capital stock is not fully subscribed for and the subscription not fully paid in cash?
65. What is promotion expense?
66. What is the purpose of the stock discount account?
67. Is a credit to a customer's account on account of stock discount valid as against creditors of the corporation?
68. What special accounts are required by the plan of the distribution of the profits of a corporation?
69. What is a bond and under what circumstances is it issued?
70. What is a debenture bond?
71. What are mortgage bonds?
72. What is the purpose and use of the Sinking Fund Assets account?
73. What is the distinction between the Sinking Fund Assets account and the Sinking Fund Reserve account?
74. What entry is made to close the Sinking Fund Assets account?
75. What entry is made to close the Sinking Fund Reserve account?
76. Under what four conditions may a corporation be dissolved?
77. What is done with the assets of a corporation when it is dissolved?
78. What closing entries are usually necessary on the dissolution of a corporation?
79. What, in general, is the order of precedence among investors when assets are distributed among them?

Corporation Forms

On pages 8, 9 and 21 are illustrations of three very important corporation forms: The certificate of incorporation, the certificate of stock, and the coupon bond. You are urged to study these forms carefully. Read every word of them. You will thus learn more about them than you could in any other way.

The *certificate of incorporation* shown is issued to a corporation only after the commissioners have filed with the Secretary of the State of Illinois proofs that the laws of incorporation have been complied with in every respect. Note the formal wording of this document.

Certificates of stock are printed and issued by the corporation to its stockholders. They are usually bound together, each being attached to a stub as shown in the illustration. As they are issued, the certificate is torn away from the stub and delivered to the stockholder, a record of the important facts being made on the stub at the same time. Sometimes the stub is posted from. Note that there is a space on the stub for the shareholder's receipt.

Coupon Bond. It is a first mortgage bond because there exists no prior lien on the property pledged for its redemption. It is a gold bond because it is ultimately to be redeemed in gold. The interest is also payable in gold. It is a coupon bond because it is accompanied by coupons (at the right in the illustration), which are to be clipped off and presented when the interest falls due. It is a trust bond because the company's property is deeded in trust to a Trustee for its redemption. Note the resemblance of the wording of a bond to that of a promissory note.

Questions on Corporation Forms

The answers will be found by reading the forms on pages 8, 9 and 21.

1. In accordance with what act and amendments must a statement be filed before incorporation?
2. What must be issued to commissioners before subscriptions for a corporation may be secured?
3. Who has power to certify that a corporation has been formed according to law?
4. What facts are recorded on the Stock Certificate stub?
5. Where and how may the above Stock Certificate be transferred?
6. Who is named as Trustee in the bond, and what are his powers?
7. What may the holder of the Bond shown do if interest is not paid?
8. How may the holder of the bond get rid of it to the company?
9. Does the company reserve the right to call the bond in?
10. On what dates are the interest coupons payable?
11. Where is the interest payable?

OUTLINES OF PROCESSES OF INCORPORATION IN THE VARIOUS STATES

ALABAMA

1. Certificate signed by all subscribers.
2. Certificate filed with and recorded by probate judge of county.
3. Certificate of registration endorsed thereon by probate judge.
4. Statement signed by said judge filed with Secretary of State together with proofs of compliance with statutory regulations.

Existence commences after step 2 and payment of fees

ALASKA

1. Incorporators sign and acknowledge articles of incorporation in triplicate.
2. One copy filed with Secretary of District of Alaska. One copy filed with clerk of district court. One copy retained.

ARIZONA

1. Articles signed and acknowledged.
2. Articles recorded with county recorder.
3. Certified copy thereof filed with Territorial Auditor.
4. Articles published in newspaper and affidavit thereto filed with Auditor.

Existence commences after step 3.

ARKANSAS

1. Articles of association signed by all incorporators.
2. Organization effected.
3. Copy of articles of incorporation, and a certificate of organization filed with and recorded by county clerk.
4. Articles and certificate, endorsed by county clerk, filed with Secretary of State.
5. Secretary of State issues Certificate of Incorporation.

Existence commences after step 2.

CALIFORNIA

1. Articles signed and acknowledged by all incorporators.
2. Articles filed with county clerk and certified copy thereof filed with Secretary of State after payment of fees.
3. Certificate that above has been done issued by Secretary of State.

COLORADO

1. Certificates signed and acknowledged by all incorporators.
2. An original certificate filed in each county where principal business is to be carried on, and with Secretary of State.
3. Certificate of authority to transact business issued by Secretary of State.
4. Certificates of compliance with statutory regulations must be filed in all offices where original certificates were filed.

Existence commences after step 2 and payment of fees.

CONNECTICUT

1. Certificate signed and sworn to by all incorporators.
2. Certificate filed with Secretary of State.
3. Certificate "approved" and recorded by Secretary of State.
4. Copy of above, certified by Secretary of State, filed with town clerk.
5. Statutory provisions as to organization complied with.

Existence commences after step 3. Business may be commenced after step 5.

DELAWARE

1. Certificate signed, sealed, and acknowledged by all original subscribers.
2. Original certificate filed with Secretary of State.
3. Certified copy thereof recorded by County Recorder of Deeds.
4. Organization tax paid to Secretary of State.

DISTRICT OF COLUMBIA

1. Charter subscribed and acknowledged by all incorporators.
2. Charter filed with district recorder of deeds after proofs of compliance with laws have been submitted to him.

FLORIDA

1. Charter subscribed and acknowledged by all incorporators.
2. Publication through newspaper.
3. Charter filed with Secretary of State.
4. Charter submitted to Governor.
5. Letters patent issued by Governor after statutory regulations have been complied with.
6. Certified copy of charter issued to corporation by Secretary of State upon receipt of fees.
7. Letters patent and certified copy of charter filed with county clerk.

GEORGIA

1. Petition published in newspaper.
2. Petition granted by court order.
3. The petition and the court's order recorded by clerk of Superior Court.
4. Statutory provisions complied with.

HAWAII

1. Incorporators sign and acknowledge articles of association.
2. Articles of association recorded with Treasurer of Territory accompanied by proofs of compliance with statutory provisions.

Existence commences when statutory provisions have been complied with.

IDAHO

1. Articles subscribed and acknowledged by all incorporators.
2. Articles filed with county recorder.
3. Certified copy thereof filed with Secretary of State.
4. Secretary of State issues certificate that above has been done.

Corporation may commence business after step 3.

ILLINOIS

1. Statement signed and acknowledged by all incorporators.
2. Statement filed with Secretary of State.
3. License to solicit subscription issued by Secretary of State.
4. Proofs of compliance with statute forwarded to Secretary of State.
5. Certificate of Incorporation issued by Secretary of State.
6. Above certificate recorded with county recorder.

INDIANA

1. Articles of association signed and acknowledged by all incorporators.
2. Articles filed with Secretary of State, accompanied by statement of proposed plan, and fees. Copy of articles filed with State Auditor.
3. Certificate of Incorporation issued by Secretary of State.
4. Duplicate of articles filed with county recorder.

Manufacturing and mining companies file the original articles with the county recorder and the duplicate with the Secretary of State.

IOWA

1. Articles of Incorporation signed and acknowledged by incorporators.
2. Articles recorded with county recorder.
3. Articles endorsed by recorder and forwarded to Secretary of State for record, with fee.

4. Publication in newspaper and proof of publication filed with Secretary of State.
Existence commences after step 3.

KANSAS

1. Petition for charter presented to State Charter Board with application fee.
2. Certificate issued by Secretary of Board authorizing incorporation.
3. Charter prepared according to law.
4. Charter signed and acknowledged by at least five incorporators.
5. Charter filed with Secretary of State, with fee.
6. Certified copy of charter issued to corporation by Secretary of State.
Business may be commenced after step 5 if proofs of compliance with laws have been filed with Secretary of State.

KENTUCKY

1. Articles of Incorporation signed and acknowledged by all incorporators.
2. Articles recorded with county clerk.
3. Copy thereof filed with and recorded by Secretary of State.
4. Proofs of compliance with law forwarded to Secretary of State.

LOUISIANA

1. Articles signed and acknowledged.
2. Charters for commercial and manufacturing corporations recorded with recorder of mortgages for parish, with subscription list.
3. Publication in newspapers.
4. Certified copy of charter filed with Secretary of State, together with proofs of steps 2 and 3.

MAINE

1. Articles of association signed by incorporators.
2. Organization effected according to statutory specifications.
3. Certificate of organization signed and sworn to by president and majority of directors, submitted to Attorney General and approved by him.
4. Above recorded in office of register of deeds.
5. Copy, certified by register of deeds, filed with Secretary of State.

MARYLAND

1. Charter, executed and acknowledged, submitted to one of the cricuit judges of the county. (In Baltimore, to one of the judges of the Supreme Bench.)
2. Above, certified by the said judge, filed with circuit clerk of the county. (In Baltimore, with the clerk of the Superior court.)
3. Copy of charter forwarded to State Tax Commissioner with fee.

MASSACHUSETTS

1. Incorporators sign agreement of association.
2. Organization effected.
3. Articles of organization signed and sworn to by majority of directors.
4. Articles of Organization and proofs of compliance with statutory provisions certified by commissioner of corporations.
5. Articles, certified as above, filed with Secretary of State of the Commonwealth.
6. Certificate of Incorporation issued by Secretary of State of the Commonwealth.

MICHIGAN

1. Articles of association signed and acknowledged by all incorporators.
2. Organization effected.
3. Articles recorded with Secretary of State and clerk of county.
Existence commences after step 2. Business may be begun only after step 3.

MINNESOTA

1. Articles signed and acknowledged by all incorporators.
2. Articles published in newspaper.
3. Proof of step 2 filed with Secretary of State.
4. Articles recorded with county register of deeds.
5. Articles filed with Secretary of State, together with proofs of compliance with statute, and State Treasurer's receipt for tax.
6. Certificate of Incorporation issued by Secretary of State.
Existence commences after step 3; but for mining and manufacturing corporations not till after step 5.

MISSOURI

1. Articles signed and acknowledged by the incorporators.
2. Articles recorded with county or city recorder of deeds.
3. Certified copy of articles filed with Secretary of State, together with duplicate of State Treasurer's receipt for fee.
4. Certificate that corporation has been duly organized issued by Secretary of State.
5. Certified copy of above recorded with county recorder of deeds.
Existence begins after step 3.

MONTANA

1. Articles signed and acknowledged by all incorporators.
2. Articles filed with county clerk.
3. Certified copy of above filed with Secretary of State.
4. Certificate that step 3 has been done issued by Secretary of State.

NEBRASKA

1. Articles of incorporation signed by all incorporators, and acknowledged.
2. Articles filed with Secretary of State, with fee.
3. Also filed with county clerk.

NEVADA

1. Articles signed and acknowledged by the corporators.
2. Articles filed and recorded by county clerk.
3. Certified copy filed and recorded by Secretary of State, with fee.
4. Certificate that this has been done issued by Secretary of State.

NEW HAMPSHIRE

1. Articles recorded by town clerk.
2. Articles recorded by Secretary of State.
3. Charter fee paid to State Treasurer.
4. Organization perfected.

NEW JERSEY

1. Certificate of Incorporation proved and acknowledged as required for deeds of real estate.
2. Three copies of above made. One filed with county clerk and recorded by him. Two certified by county clerk and forwarded to Secretary of State. One of these retained by Secretary of State; one certified by him and returned to incorporators.

NEW MEXICO

1. Certificate of Incorporation signed by all original subscribers.
2. Certificate acknowledged as for deeds of real estate.
3. Above filed with Secretary of the Territory.
4. Copy thereof, certified by Secretary of the Territory, recorded by county recorder.
5. Publication.
6. Proof of publication filed with Secretary of State.
Existence commences after step 4.

NEW YORK

1. Certificate of Incorporation acknowledged by all incorporators.
2. Above filed with and recorded by Secretary of State.
3. Certified copy filed with county clerk, with receipt for fees.

NORTH CAROLINA

1. Certificate signed and acknowledged by all incorporators.
2. Above filed and recorded with Secretary of State after payment of fees.
3. Certified copy of the certificate and probate recorded with clerk of County Superior Court.

NORTH DAKOTA

1. Charter subscribed and acknowledged by all incorporators.
2. Articles filed with Secretary of State together with duplicate of State Treasurer's receipt for fees.
3. Certificate of Incorporation issued by Secretary of State.

OHIO

1. Articles signed and acknowledged by all incorporators.
2. Above filed with Secretary of State.
When statutory requirements have been complied with and it is so certified to the Secretary of State the corporation's existence commences.

OKLAHOMA

1. Articles subscribed and acknowledged by all incorporators.
2. Articles filed with and recorded by Secretary of Territory.*
3. Certificate that this has been done issued by Secretary of Territory.

* Under the new State Constitution (1907) a corporation may not commence business until a statement is filed with the State Corporation Commission, with fees.

OREGON

1. Articles subscribed and acknowledged by incorporators, in triplicate.
2. One copy filed with Secretary of State. One copy filed with county cerk. One copy retained by corporation.
4. Certificate of incorporation issued by Secretary of State when fees have been paid.

PENNSYLVANIA

1. Certificate subscribed and acknowledged by two or more incorporators and sworn to.
2. Publication in newspaper.
3. Proof of publication filed with Secretary of State.
4. Certificate of organization filed with Secretary of State.
5. Certificate and proof of publication forwarded to Governor.
6. Governor endorses above, and issues Letters Patent.
7. Certificate recorded with Secretary of State and registered with Auditor General.
8. Above recorded with county recorder of deeds.
9. Statement filed with Auditor of Commonwealth.

RHODE ISLAND

1 Agreement signed by incorporators and jointly acknowledged by them.
2. Agreement filed with Secretary of State with receipt for fees.
3. Certificate of Incorporation issued by Secretary of State.

Business may be commenced after step 2.

SOUTH CAROLINA

1. Petition signed and acknowledged by incorporators.
2. Petition recorded by Secretary of State.
3. Commission to solicit subscription authorized by Secretary of State.
4. Proofs of compliance with requirements of law filed with Secretary of State.
5. Charter issued by Secretary of State after payment of fees.
6. Copy of charter recorded by register of conveyances or clerk in each county where the corporation has a business office.

SOUTH DAKOTA

1. Certificate signed and acknowledged by incorporators.
2. Two incorporators swear that the corporation does not seek to avoid anti-trust laws.
3. Certificate filed and recorded with Secretary of State.
4. Certificate of Incorporation issued by Secretary of State.

TENNESSEE

1. Incorporators sign and acknowledge execution of charter, which is in reality a petition.
2. Above is recorded in county and state offices.
3. Secretary of State issues certificate of registration.
4. Certificate of registration filed with county register.

TEXAS

1. Articles subscribed by all incorporators, and acknowledged by them.
2. Articles filed with Secretary of State after payment of fees and proof of compliance with laws.

UTAH

1. Agreement subscribed by all incorporators and acknowledged by three or more.
2. Agreement and proofs of compliance with statutes governing organization filed with county clerk.
3. County clerk certifies to step 2.
4. Above certification and copies of proofs of compliance with statutes filed with Secretary of State.
5. Secretary of State certifies that this has been done.

VERMONT

1. Articles subscribed by all incorporators.
2. Articles submitted to Secretary of State, and recorded by him.
3. Certified copy thereof recorded by town clerk.

Existence cannot commence until after payment of fees.

VIRGINIA

1. Certificate of incorporation subscribed by incorporators.
2. Above certified by judge of corporation, circuit, or chancery court.
3. Organization tax paid.
4. Certificate certified by State Corporation Commission and forwarded to Secretary of Commonwealth.
5. Above recorded by Secretary of Commonwealth and certified by him.
6. Recorded by clerk of county circuit court or city corporation court and endorsed by him. (In Richmond, by clerk of chancery court.)
7. Filed with clerk of State Corporation Commission.

Existence commences after step 4.

WASHINGTON

1. Incorporators subscribe and acknowledge articles of incorporation in triplicate.
2. One copy filed with Secretary of State. One copy filed with county auditor. One copy retained.
3. Proofs of compliance with statutes filed with county auditor.

WEST VIRGINIA

1. Agreement of incorporation signed and acknowledged by all five incorporators.
2. Application to Secretary of State.
3. Certified copy of above recorded with county clerk.

WISCONSIN

1. Articles of association signed and acknowledged.
2. Verified copy of above filed with Secretary of State with organization tax.
3. Above, certified by Secretary of State, filed with register of deeds.
4. Certification of above filing forwarded to Secretary of State.
5. Certificate of Incorporation issued by Secretary of State.

WYOMING

1. Duplicate certificate of incorporation signed and acknowledged by incorporators.
2. One copy filed with county clerk. One copy filed with Secretary of State.
3. Publication in newspapers.
4. Proof of publication filed with Secretary of State, together with fee for filing.

CORPORATION LAWS IN THE VARIOUS STATES

States	Is a certificate issued by State officials?	Minimum No. of incorporators required.	Maximum and Minimum par value of shares.	Minimum capitalization Pd. in to commence business.	Percentage of Cap. Stock to be subscribed before commencing business.	Does statute expressly authorize issue of preferred stock?	Does statute confer power to purchase stock in other corporations?	Does statute confer power to consolidate with other corporations?
Alabama	No	3	Any amt	20%	25%	Yes	Yes	Yes
Alaska	No	3	Any amt	No limit	None	No	No	No
Arizona	No	2	Any amt	No limit	None	No	No	No
Arkansas	Yes	3	$25	No limit	None	Yes	No	No
California	No	3	Any amt	No limit	None	No	No	Yes
Colorado	No	3	$1 to $100	No limit	None	No	No	Yes
Connecticut	No	3	Min. $25	$1000	$1000	Yes	Yes	Yes
Delaware	No	3	Any amt	$1000	$1000	Yes	Yes	Yes
District Columbia	No	3	Any amt	10%	10%	No	Forbidden	No
Florida	No	3	Min. $10	10%	10%	No	No	No
Georgia	No	2	Any amt	10%	10%	No	Yes	No
Hawaii	No	5	Any amt	10%	75%	Yes	No	No
Idaho	No	3	Any amt	No limit	None	No	No	No
Illinois	Yes	3 to 7	$10 to $100	No limit	All	No	Yes, lmtd	Yes
Indiana	Yes	3	Max. $100	No limit	None	Yes	Yes, lmtd	Yes
Iowa	No	1	Any amt	No limit	None	No	No	No
Kansas	No	5	Any amt	20%	20%	Yes	No	No
Kentucky	No	3	Any amt	No limit	50%	Yes	No	Yes
Louisiana	No	3	Any amt	No limit	None	No	No	Yes
Maine	No	3	Any amt	No limit	None	Yes	Yes	Yes
Maryland	No	5	Any amt	No limit	None	Yes	No	Yes
Massachusetts	No	3	Min. $5	No limit	None	Yes	No	No
Michigan	No	3	$10 to $100	10%	50%	Yes	No	No
Minnesota	No	3	$1 to $100	No limit	None	Yes	No	No
Mississippi	No	2	Any amt	No limit	None	No	No	No
Missouri	Yes	3	Any amt	50%	All	Yes	No	Yes
Montana	No	3	Any amt	No limit	None	Yes	No	Yes
Nebraska	No	1	Any amt	No limit	None	No	No	No
Nevada	No	3	Any amt	No limit	$1000	Yes	Yes	Yes
New Hampshire	No	5	$25 to $500	No limit	None	Yes	No	No
New Jersey	No	3	Any amt	$1000	$1000	Yes	Yes	Yes
New Mexico	No	3	Any amt	$2000	$2000	Yes	Yes	Yes
New York	No	3	$5 to $100	$500	$500	Yes	Yes	Yes
North Carolina	No	3	Any amt	No limit	None	Yes	No	No
North Dakota	No	3	Any amt	No limit	None	No	No	No
Ohio	No	5	Any amt	No limit	10%	Yes	Yes, lmtd	Yes
Oklahoma	No	3	Any amt	No limit	None	No	No	No
Oregon	No	3	Any amt	No limit	50%	No	No	Yes, lmtd
Pennsylvania	No	3	Max. $100	10%	10%	Yes	Yes	Yes
Rhode Island	No	3	Any amt	No limit	None	Yes	No	No
South Carolina	No	2	Any amt	20%	50%	Yes	No	No
South Dakota	No	3	Any amt	No limit	None	No	No	Yes
Tennessee	No	5	Max $100	No limit*	None	Yes	Yes	Yes
Texas	No	3	Any amt	10%	50%	Yes	No	No
Utah	Yes	5	Any amt	10%	10%	Yes	No	Yes
Vermont	No	5	Max. $100	25%	25%	No	No	No
Virginia	No	3	Any amt	No limit	Min. Cap.	Yes	Yes	Yes
Washington	No	2	Any amt	No limit	All	No	Yes	No
West Virginia	No	5	Any amt	10% of sub	5 shares	Yes	Yes	Yes
Wisconsin	No	3	Any amt	20%	50%	Yes	Yes	No
Wyoming	No	3	Any amt	No limit	None	Yes	Yes	No

* Except Brewery Co.'s.

CORPORATION LAWS IN THE VARIOUS STATES

States	Has Corp'n lien on stock for debt due from own Stockholders?	Is cumulative voting permitted?	Does statute impose any liability upon subscribers beyond unpaid subscription?	Does statute provide that Cap. Stock is payable in services and property?	Duration.	Minimum No. of directors required by statute.	Can they classify directors?	Are they restricted in holding Real Estate?	Can they purchase own stock?	Can they forfeit stock for non-payment of assessments?
Alabama	Yes	No	No	Yes	Unlmtd	3	No	No	No	Yes
Alaska	No	No	No	Yes	50 yrs	3	No	No	No	Yes
Arizona	No	No	No	No	25 yrs	1	No	No	No	No
Arkansas	Yes	No	No	Yes	Unlmtd	3	No	No	No	Yes
California	No	Yes	Yes	Yes	50 yrs	3	No	No	No	Yes
Colorado	No	Yes	No	Yes	20 yrs	3 to 13	No	No	Forbidden	Yes
Connecticut	Yes	Yes	No	Yes	Unlmtd	3	Yes	No	Yes	Yes
Delaware	No	Yes	No	Yes	Unlmtd	3	Yes	No	Yes	Yes
District Columbia	No	No	No	Yes	Unlmtd	3 to 15	No	Yes	No	Yes
Florida	No	No	No	Yes	Unlmtd	1	No	Yes	No	Yes
Georgia	Yes	No	No	No	20 yrs	1	No	No	No	Yes
Hawaii	No	No	No	Yes	50 yrs	1	No	No	No	Yes
Idaho	No	No	No	Yes	50 yrs	3 to 15	Yes	Yes	No	Yes
Illinois	No	Yes	No	No	99 yrs	5 to 11	Yes	Yes	No	Yes
Indiana	Yes	No	Yes	No	50 yrs	3 to 13	No	Yes	No	Yes
Iowa	No	No	No	Yes	20 yrs	1	No	No	No	No
Kansas	No	Yes	No	No	20 yrs	3 to 24	No	No	No	Yes
Kentucky	No	Yes	No	Yes	Unlmtd	3	Yes	Yes	No	Yes
Louisiana	No	No	No	Yes	99 yrs	1	No	No	No	No
Maine	No	No	No	Yes	Unlmtd	3	Yes	No	No	Yes
Maryland	No	Yes	No	Yes	40 yrs	4 to 12	No	No	No	Yes
Massachusetts	No	No	Yes	Yes	Unlmtd	3	Yes	No	No	Yes
Michigan	Yes	Yes	Yes	Yes	30 yrs	3	No	Yes	No	Yes
Minnesota	Yes	No	Yes	No	30 yrs	3 to 15	Yes	Yes	No	Yes
Mississippi	No	Yes	No	No	50 yrs	1	No	No	No	Yes
Missouri	No	Yes	No	Yes	50 yrs	3 to 13	Yes	No	No	Yes
Montana	No	Yes	No	Yes	20 yrs	3 to 13	No	Yes	No	Yes
Nebraska	No	Yes	No	No	Unlmtd	1	No	Yes	No	Yes
Nevada	No	Yes	No	Yes	Unlmtd	3	Yes	No	No	Yes
New Hampshire	No	No	No	Yes	Unlmtd	3	No	No	No	Yes
New Jersey	Yes	Yes	No	Yes	Unlmtd	3	Yes	No	Yes	Yes
New Mexico	No	Yes	No	Yes	50 yrs	3	Yes	No	Yes	Yes
New York	Yes	Yes	Yes	Yes	Unlmtd	3	Yes	No	No	Yes
North Carolina	No	Yes	No	Yes	Unlmtd	3	Yes	No	No	Yes
North Dakota	No	Yes	Yes	Yes	20 yrs	3 to 11	No	No	No	Yes
Ohio	No	Yes	No	Yes	Unlmtd	5 to 15	No	No	No	Yes
Oklahoma	No	No	Yes	Yes	20 yrs	3 to 11	No	No	Yes	Yes
Oregon	No	No	No	No	Unlmtd	3	No	No	No	Yes
Pennsylvania	Yes	Yes	Yes	Yes	Unlmtd	3	Yes	Yes	No	Yes
Rhode Island	Yes	No	No	Yes	Unlmtd	1	No	Yes	No	Yes
South Carolina	Yes	Yes	No	Yes	Unlmtd	1 to 9	No	No	No	Yes
South Dakota	No	Yes	Yes	Yes	20 yrs	3 to 11	No	No	Yes	Yes
Tennessee	No	No	Yes	Yes	Unlmtd	5	No	No	No	Yes
Texas	No	No	No	Yes	50 yrs	3 to 13	No	Yes	No	Yes
Utah	Yes	No	No	Yes	3 to 100	3 to 25	No	No	No	Yes
Vermont	Yes	No	No	No	Unlmtd	3	No	No	No	Yes
Virginia	No	Yes	No	Yes	Unlmtd	3	Yes	Yes	Yes	Yes
Washington	No	No	No	Yes	50 yrs	2	No	No	No	Yes
West Virginia	No	Yes	No	Yes	50 yrs	1	No	Yes	Yes	Yes
Wisconsin	No	No	Yes	Yes	Unlmtd	3	Yes	Yes	No	Yes
Wyoming	No	No	No	Yes	50 yrs	3 to 9	No	No	No	Yes

NEW YORK CHARTER

We present herewith the form of the New York Charter, as being a typical form. While the forms for different states vary in detail, many state charters are patterned closely after the New York charter, and it is believed that the form here shown will give a better idea of a corporation charter than any other state form which could be presented.

CERTIFICATE OF INCORPORATION

of the

DALTON MANUFACTURING COMPANY

We, the undersigned, all being of full age and two-thirds being citizens of the United States, and one of us a resident of the State of New York, for the purpose of forming a Corporation under the Business Corporations Law of the State of New York, do hereby certify and set forth:

First—The name of said Corporation shall be

"DALTON MANUFACTURING COMPANY."

Second—The purposes for which said Corporation is formed are as follows:

1. To buy, sell, manufacture and generally deal in all manner of tools, machinery, devices, appliances and supplies used in the plumbing trade.
2. To lease, buy, sell, use and hold all such property, real or personal, as may be necessary or convenient in connection with the said business.
3. To do any or all things set forth in this certificate as objects, purposes, powers or otherwise, to the same extent and as fully as natural persons might do, and in any part of the world.

Third—The amount of Capital Stock of said Corporation shall be Seventy-Five Thousand ($75,000) Dollars.

Fourth—The number of shares composing said capital stock shall be Seven Hundred Fifty (750) Shares of the par value of One Hundred ($100) Dollars each, and the amount of capital with which said Corporation will begin business is Seven Hundred Fifty ($750) Dollars.

Fifth—The principal business office of said Corporation shall be in the City, County and State of New York.

Sixth—The duration of said Corporation shall be perpetual.

Seventh—The number of directors of said Corporation shall be three.

Eighth—The names and postoffice addresses of the directors of said Corporation for the first year are as follows:

NAMES	ADDRESSES
M. M. Dalton	No. 656 Fifth Ave., New York City.
K. V. Handley	No. 229 Broadway, New York City.
L. D. Peoples	No. 629 Broad St., Brooklyn, N. Y.

Ninth—The names and postoffice addresses of the subscribers to this certificate, and the number of shares of stock which each agrees to take in said Corporation, are as follows:

NAMES	ADDRESSES	SHARES
M. M. Dalton	No. 656 Fifth Ave., New York City	38
K. V. Handley	No. 229 Broadway, New York City	15
L. D. Peoples	No. 629 Broad St., Brooklyn, N. Y	15
F. C. Keach	Salem, Mass	7

Tenth—Pursuant to Section 40 of the Stock Corporation Law, as amended, this Corporation shall have power to purchase, acquire, hold and dispose of the stocks, bonds, and other evidences of indebtedness of any corporation, domestic or foreign, and issue in exchange therefor its stocks, bonds or other obligations.

In Witness Whereof, we have made and signed this certificate in duplicate this fourteenth day of January, one thousand nine hundred and eight.

M. M. DALTON.
K. V. HANDLEY.
L. D. PEOPLES.
F. C. KEACH.

State of New York, }
County of New York } ss:

Personally appeared before me this 14th day of January, 1908, M. M. Dalton, K. V. Handley, L. D. Peoples and F. C. Keach, to me personally known to be the persons described in and who executed the foregoing certificate, and severally acknowledged that they executed the same for the purposes therein set forth.

T. J. ADAMS,
Notary Public for New York County.

{ NOTARIAL SEAL. }

ABBREVIATIONS

(Parentheses indicate plurals)

a or @ or *at*.....at
A1.....1st class
Abbr.....abbreviation
Acct. or % (%'s).....account
A. D.....*Anno Domini;* after Christ
Admr.....administrator
Admx.....administratrix
Adv.....adverb; advertisement; advocate
Agt. (*Agts*.).....agent
A. M.....morning; master of arts
Am.....American
Amt. (*Amts*.).....amount
Ans.....answer
Ass'd.....assorted
Asst.....assistant
Atty.....attorney
Avoir.....avoirdupois

Bal.....balance
B. C.....before Christ
Bdls.....bundles
B/L (*B's/L*).....Bill of Lading
Bbl. or *Brl*. (*Brls*.).....barrel
Bills Rec. or *B. Rec*.....bills receivable
Bills Pay. or *B. Pay*.....bills payable
Bk.....bank; book
B. O.....buyer's option
Bot.....bought
Bro. (*Bros*.).....brother
Brot.....brought
B/S.....bill of sale
Bu. (*bu*.).....bushel
Bxs.....boxes

C.....100
¢ or *cts*.....cents
Cap. (*Caps*.).....chapter; capital
Cash or *Cash'r*.....cashier
Cat.....catalog
CB.....cash book
Chgd.....charged
Ck. (*Cks*.).....check
Clk.....clerk
c/o.....care of
Co.....company
C. O. D.....collect on delivery
Coll.....collection
Comm.....commission
Con.....*contra;* other side
Const.....consignment
C. P. A.....Certified Public Accountant
Cr.....credit
C. W. O.....cash with order
Cwt.....hundredweight

D. B.....day book
Dep.....deposit
Dept.....department
Dft. (*Dfts*.).....draft
Dis. or disct.....discount
Do or "".....ditto; the same
Doz.....dozen
Dr.....debit; doctor
Dr'ge.....drayage

Ea.....each
EE.....errors excepted
E. & O. E.....errors & omissions excepted
e. g.....*exempli gratia;* for example
Esq. (*Esqs*.).....Esquire
Et al.....and others
Etc.....*et cetera;* and so on
Exch.....exchange
Exec.....executor
Execx.....executrix
Exp.....expense

F. or *Fol*.....folio; page
Fir.....firkin
F. O. B.....free on board, or freight on board
Ford.....forward
Frt.....freight
Ft.....foot or feet

Gal.....gallon or gallons
Gr.....gross; grain
G. Gr.....great gross

Hdkf.....handkerchief
Hf. ch. or ½ *ch*.....half chest
Hhd.....hogshead
Hon.....Honorable

I. B. . . . . . invoice book
i. e. . . . . . *id est;* that is
in. . . . . . inch or inches
Ins. . . . . . insurance
Inst. . . . . . *instant;* this month
Int. . . . . . interest
In trans. . . . . . in transit
Inv. . . . . . invoice
Invt. or *Invt'y.* . . . . . inventory
I. O. U. . . . . . I owe you

J. or *Jour.* . . . . . journal
J. F. . . . . . journal folio
Jr. . . . . . junior

L. or *Ledg.* . . . . . ledger
L. F. . . . . . ledger folio
L. & G. . . . . . loss and gain
lbs. ℔ . . . . . pounds
Lib. . . . . . librarian

M. . . . . . noon
M. or ~~*M.*~~ 1,000
Mdse. . . . . . merchandise
Mem. or *Memo.* . . . . . memorandum
Messrs. . . . . . *messieurs;* pl. of mister
Mfg. or *M'f'g.* . . . . . manufacturing
Mgr. . . . . . manager
Mlle. . . . . . *mademoiselle;* miss
Mme. . . . . . madam
Mmes. . . . . . pl. of madam
Mo. . . . . . month
Mr. . . . . . mister
Mrs. . . . . . mistress
MS. (*MSS.*) . . . . . manuscript

Nat'l or *Natl.* . . . . . national
N. B. . . . . . *nota bene;* take note
No. ♯ (*Nos.*) . . . . . number

O. K. . . . . . all correct
Oz. . . . . . ounces

Payt. . . . . . payment
Pcs. . . . . . pieces
Pd. . . . . . paid
Per. . . . . . by; (not an abbr.)
Per cent . . . . . by the hundred
Pg. . . . . . page
Pk. . . . . . peck or pecks
Pkg. . . . . . package
P. M. . . . . . postmaster; afternoon
pp . . . . . pages
Pr. . . . . . pair or pairs
Prem. . . . . . premium
Pres. . . . . . president
Prox. . . . . . *proximo;* next month
P. S. . . . . . postscript
Pt. . . . . . pint or pints
Pwt. or *Dwt* . . . . . pennyweight

Qr. . . . . . quire; quarter
Qrs. . . . . . quarters
Qt. . . . . . quart

Recd. . . . . . received
Retd. . . . . . returned
R. R. or *Ry.* . . . . . railroad; railway

S. B. . . . . . sales book
SS . . . . . steamship
Sec. . . . . . second
Secy. or *Sec'y.* . . . . . secretary
Shipt. . . . . . shipment
S. O. . . . . . seller's option
Sq. . . . . . square
Sr. . . . . . Senior
St. . . . . . saint; street
Str. . . . . . steamer
Sunds. . . . . . sundries
Supt. . . . . . superintendent

Tp. . . . . . township
Trans. . . . . . transportation
Treas. . . . . . treasurer

Ult. . . . . . *ultimo;* last month

Viz. . . . . . *videlicet;* namely
Vol. . . . . . volume
V. Pres. . . . . . vice president
Vs. . . . . . *versus;* against

W. B. . . . . . way-bill
Wk. . . . . . week
Wt. . . . . . weight

Yr. . . . . . year
Yd. (*Yds.*) . . . . . yard

First, Second, Third and *Fourth* are abbreviated 1st, 2d, 3d, 4th.

1^1, 1^2, 1^3, mean, respectively, $1\frac{1}{4}$, $1\frac{2}{4}$, and $1\frac{3}{4}$.

MODERN
CORPORATION ACCOUNTING

YE 02710

M513276

HF5686
C7L9